11/5/80 B4750-1

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Oct. 31, 1980

The securities markets were highly thin and nervous this week, reflecting the recent rise in the Federal funds rate, the virtual absence of investor demand for new issues, and the approach of next week's quarterly Treasury refunding. The uncertain election outcome also undoubtedly added to market jitters. In this setting, many interest rates rose further to levels at or only slightly below the highs recorded in the March-April period this year.

It is important to keep some perspective on the market's performance, however. First, the Fed has been in the position of having to arrange large amounts of repurchase agreements (RPs) in order to implement what is in large part a seasonal addition of reserves. The Fed's Open Market Desk probably decided to defer a substantial outright purchase of Treasury securities until the refunding next week. The immediate consequence of that decision is the need to enter the market repeatedly to arrange large amounts of RPs. Herein lies the rub: With the market nervous and dealer positions generally light, relatively little collateral has been available for such transactions, and thus at times the Fed may have had to settle for adding less reserves than planned. That would have put the funds market under pressure. If so, then this technical source of firmness may well abate as early as late next week.

On the whole, there is no evidence that the Fed changed its policy stance at the most recent FOMC meeting, and we continue to view the backup in rates as basically a logical response to recent rapid money growth, compounded by the technical operating problem noted above. Some market participants have speculated that the Fed might be saving an increase in the discount rate for after the election. The current wide spread of the funds rate over the discount rate certainly lends credence to this view, but on balance we remain skeptical. First, a portion of the spread probably is a technical distortion, of which the Fed would be only too well aware. Second, the Fed does not seem to be playing politics. Those commentators who as recently as a couple of months ago were arguing that the monetary targets would be set aside temporarily, as the Fed kept rates down to pave the way for a Carter reelection effort, must surely agree now that the Fed has been keeping its commitment to the targets. The best guess, then, is that the Fed will probably wait awhile to assess the impact of recent rate increases on monetary growth before undertaking any new aggressive initiatives.

On balance the prospect seems favorable that the funds rate may work down next week from its current lofty level.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	10/31/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	14.50%	14.00%	15.25%
Effective since	10/29/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	12.00
Federal Funds	13.88	13.25	14.88
Repurchase Agreements	12.75	12.50	12.00
U.S. Treasury Issues			
Bills			
3 months	12.54	12.35	12.50
6 months	12.65	12.70	13.03
1 year	12.20	12.74	12.90
Coupons			
2 years	13.05	12.36	12.10
4 years	12.85	12.25	11.45
7 years	12.40	12.04	10.90
10 years	12.35	11.75	10.80
Long Bond	12.08	11.68	10.40
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.90	13.05	14.35
3 months	14.40	13.20	14.60
6 months	14.40	13.25	14.65
1 year	14.40	12.85	14.30
Banker's Acceptances			
1 month	13.70	12.90	14.25
3 months	14.40	13.15	14.70
6 months	14.50	13.44	14.70
Eurodollar Deposits			
1 month	14.50	13.38	15.00
2 months	15.00	13.81	15.63
3 months	15.06	13.88	15.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.25	10.00	13.50
1 month	13.00	12.50	14.13
3 months	12.50	12.00	12.88
Bank Holding Companies			
1 month	13.38	12.50	14.25
Dealer Placed:			
3 months	13.38	12.25	14.40
New AA Corporate Utility Bond	14.13	13.63	11.45
Tax Exempt			
6 month Project Notes	6.25	5.90	6.30
1 year AAA Bond	6.15	6.00	NA
5 year AAA Bond	7.00	6.50	NA
20 year AAA Bond	8.00	8.00	6.70

This information represents prevailing market yields.

It should not be construed as an offering.

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11/10/80 B 4950-1 U

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday
(Noon)

Nov. 7, 1980

To put it mildly, the financial markets this week were panicky and rumor-filled. It is hard to imagine a scenario that could have been much more unsettling. Even the positive effect on the markets of the election results was quickly wiped out as market participants focused their attention on other matters.

Obviously, the main source of market apprehension was the rapidly rising trend of the Federal funds rate and other market rates. In the space of a little more than a week, the Federal funds rate has backed up by about 200 basis points, to a level well in excess of the presumed 14% top of the Fed's acceptable range for the rate. As if that were not sufficient cause for concern, it occurred during the week of the Treasury's regular quarterly refunding operation, when about $8 billion of intermediate- and long-term securities were being auctioned. With retail investor demand virtually absent, dealers were understandably apprehensive about bidding for the securities, and the record high rates set in the auction reflected that fact. To top it off, rumors abounded that the Fed would tighten the monetary policy screws still further, including an increase in the discount rate to 12% or 13% from its present 11% level.

But the jury is still out on all of this. Despite assertions to the contrary in some quarters, there is little tangible evidence that the Fed has undertaken an abrupt tightening of its policy stance. On the other hand, there are abundant indications of temporary distortions that could account for much of the upward pressure on the funds rate. Last week, we noted that extremely thin dealer positions in Treasury and agency securities could have created difficulties for the Fed in adding all of the reserves called for by its projections. Some tentative confirmation of this view was seen this week in the sharp drop of Treasury balances at the Federal Reserve Banks. A reduction in such balances injects reserves into the banking system, and our best guess is that in large part it was undertaken deliberately in order to alleviate the Fed's reserve-supplying problem.

Another source of distortion in the reserves market during the week was the election. The Tuesday holiday meant that banks which normally cover their reserve needs in the funds market on Monday and Tuesday had to do it all on Monday, and that naturally made them more aggressive in bidding for funds. The result: upward rate pressure. In addition, banks have done relatively little writing of CDs in the unsettled market, and that also should have increased pressure on funds somewhat.

The bottom line is that it is too early to tell whether the Fed has tightened its policy stance. An increase of the discount rate would be a clear signal, of course, but currently it is not obvious that such will occur. In fact, if the discount rate has not been raised by Friday night, it will probably indicate that much of the sound and fury of this week's rate increases represented a distortion--and was perceived as such by the Fed.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	11/7/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	15.50%	14.50%	15.50%
Effective since	11/6/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	12.00
Federal Funds	15.25	13.88	13.75
Repurchase Agreements	14.00	12.75	12.25
U.S. Treasury Issues			
Bills			
3 months	13.88	12.54	12.50
6 months	14.05	12.65	13.00
1 year	13.80	12.20	12.50
Coupons			
2 years	13.33	13.05	11.89
4 years	13.25	12.85	11.18
7 years	13.00	12.40	11.05
10 years	12.97	12.35	10.75
Long Bond	12.45	12.08	10.30
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.90	13.90	14.20
3 months	14.35	14.40	14.35
6 months	14.10	14.40	14.40
1 year	14.25	14.40	13.70
Banker's Acceptances			
1 month	14.90	13.70	14.00
3 months	14.85	14.40	14.50
6 months	14.30	14.50	14.50
Eurodollar Deposits			
1 month	15.88	14.50	14.75
2 months	16.38	15.00	15.56
3 months	16.50	15.06	15.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.00	13.25	10.00
1 month	14.63	13.00	14.00
3 months	13.63	12.50	12.88
Bank Holding Companies			
1 month	14.63	13.38	13.90
Dealer Placed:			
3 months	14.50	13.38	14.25
New AA Corporate Utility Bond	14.63	14.13	11.75
Tax Exempt			
6 month Project Notes	6.50	6.25	6.25
1 year AAA Bond	7.40	6.15	NA
5 year AAA Bond	7.20	7.00	NA
20 year AAA Bond	9.00	8.00	6.75

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11/18/80 B 4750-1

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday
(Noon)

Nov. 14, 1980

The Federal Reserve faces several problems in the immediate and near future that will increase uncertainty concerning the course of monetary policy and will represent a real trial for policymakers.

The most immediate problem concerns the impact on required reserves of the Monetary Control Act's extension of reserve requirements to nonmember depository institutions and the reduction of the reserve requirements of member banks. The Fed earlier estimated the likely impact--probably a net $3-4 billion reduction of required reserves--so the volume of the reserve draining operation occasioned by the reserve requirements change is known. The difficulty is that the seasonal patterns by which the Fed estimates reserve "operating factors" may be altered by the new system. In particular the volume of excess reserves is likely to swell as the vault cash holdings of smaller nonmember institutions are included in total reserves, thus complicating the calculation of the impact of reserve availability on the level of the Federal funds rate. (The reason is that to the extent that excess reserves are held as vault cash, they will be unavailable for lending in the funds market, and thus cannot put downward pressure on the funds rate.) Needless to say, these problems will complicate life not only for the Fed's Open Market Desk but will impair, for a time, the ability of market participants to divine Fed policy shifts by sifting through reserves data.

Another problem for the Fed--and everybody else!--concerns the impact on the monetary aggregates of changing institutional structures. The M-1B money definition is destined to supersede the more obsolete M-1A which includes *all* NOW and similar interest-bearing deposits and *none* of the checkable shares of money market mutual funds. Our view is that some portion of both of these account types should have been included in M-1B. Money fund growth is likely to revive soon, even if rates move down toward the end of this year (for accounting reasons, money fund rates are especially attractive under such circumstances), and that will make M-1B understate money growth. Operating in the opposite direction is the fact that nationwide authorization of NOW accounts, which goes into effect at the start of 1981, will result in some transfer into M-1B of what are really savings accounts. How large the distortion will be no one--not even the Board Staff--currently can say with any confidence. The rub is that the M-1B money growth *target* will be adjusted to allow for the staff's best estimate of the distortion, and the adjustment easily might be in substantial error. Thus, were the adjustment too small, M-1B would tend to track above target, and vice versa if the adjustment were too big. Thus, it all adds up to an unusually uncertain and difficult environment in which to try to interpret--much less target--monetary growth.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	11/14/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	15.50%	15.50%	15.75%
Effective since	11/6/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	12.00
Federal Funds	14.00	15.25	13.38
Repurchase Agreements	13.50	14.00	12.50
U.S. Treasury Issues			
Bills			
3 months	13.85	13.88	12.30
6 months	14.20	14.05	12.90
1 year	13.75	13.80	12.35
Coupons			
2 years	13.10	13.33	11.80
4 years	12.90	13.25	11.12
7 years	12.75	13.00	10.90
10 years	12.65	12.97	10.75
Long Bond	12.30	12.45	10.40
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.00	14.90	13.90
3 months	15.10	14.35	14.10
6 months	15.00	14.10	14.15
1 year	14.00	14.25	13.60
Banker's Acceptances			
1 month	14.80	14.90	13.90
3 months	15.20	14.85	14.20
6 months	15.00	14.30	14.25
Eurodollar Deposits			
1 month	15.19	15.88	14.50
2 months	15.56	16.38	15.38
3 months	15.63	16.50	15.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.00	14.00	10.00
1 month	13.75	14.63	13.50
3 months	13.25	13.63	12.75
Bank Holding Companies			
1 month	14.13	14.63	13.30
Dealer Placed:			
3 months	14.38	14.50	13.63
New AA Corporate Utility Bond	14.50	14.63	11.75
Tax Exempt			
6 month Project Notes	7.60	6.50	6.40
1 year AAA Bond	7.00	7.40	NA
5 year AAA Bond	7.00	7.20	NA
20 year AAA Bond	8.75	9.00	6.80

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11/28/80 B 4750-1 U

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
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**Economic Research &
Planning Division**

Friday
(Noon)

Nov. 21, 1980

Financial markets this week were thin and highly volatile, with rates uniformly higher than the week before. The main factors behind the gyrating upward thrust were the Federal Reserve's increase of its discount rate last Friday and abundant signs of difficulty on the part of banks and the Fed in coping with the new system of reserve requirements. Meanwhile, no one seemed interested that the FOMC had met on Tuesday, and focused instead on the delay in release of the money stock data.

In many ways the current market setting is reminiscent of that in late March of this year. At that time, the Fed introduced a credit restraint program which caused considerable confusion, as the new reserve requirements and reporting procedures apparently are doing now. Also the Fed, then as now, increased its discount rate, adding a supplementary charge for banks which were frequent borrowers, e.g., those which borrow more than four times in a quarter.

However, there are differences, too. This time the supplementary discount rate was imposed in the middle of the quarter, when many banks had already borrowed several times. Thus, for those banks the extra charge was effective immediately, and undoubtedly made them unusually aggressive in bidding for funds. In addition, the difficulty of calculating the new reserve requirements probably also made some smaller banks less willing to sell their excess reserves. All of this was sufficient to put upward pressure on the funds rate. In addition, the pattern of open market operations in the statement week ended Wednesday suggests strongly that the Fed was slow to perceive the emerging reserves shortage.

The implication: As these temporary distortions are worked out, the funds rate should come down to a more normal relationship relative to the discount rate, perhaps in the 15% area. That would be good news to the securities markets. But the problem is that Treasury bills, for example, are already priced to reflect the market's anticipation of sharply lower financing costs in the near term. Thus, should rapid declines in the funds rate fail to occur, that sector could be quite exposed to a rate correction.

In addition, it is probably highly significant that, when the discount rate was increased last Friday, the Fed already had a large amount of the new data from nonmember banks reporting weekly for the first time, so it was aware of the direction and rough magnitude of the "benchmark" revisions to be applied to the money data. Since the Fed is experiencing severe problems with the new reporting process and will probably continue to do so for a few weeks, the release of the new money data--together with benchmark revisions of the earlier numbers--will be delayed, and the market remains exposed to bad news on that front. On the other hand, it is reasonably likely that the Fed has already incorporated the new data into its policy stance and will not react further when the data are released.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	11/21/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(NOON)		
Short-term loans to substantial depositors with highest credit rating	17.00%	15.50%	15.75%
Effective since	11/21/80		
Discount Rate at Federal Reserve Bank	12.00	11.00	12.00
Federal Funds	18.00	14.00	12.38
Repurchase Agreements	16.00	13.50	12.00
U.S. Treasury Issues			
Bills			
3 months	14.89	13.85	11.85
6 months	15.19	14.20	12.40
1 year	14.51	13.75	12.10
Coupons			
2 years	13.74	13.10	11.82
4 years	13.21	12.90	11.05
7 years	12.82	12.75	10.65
10 years	12.75	12.65	10.53
Long Bond	12.35	12.30	10.24
Negotiable Certificates of Deposit-Secondary Market			
1 month	16.10	15.00	13.30
3 months	16.35	15.10	13.55
6 months	16.00	15.00	13.55
1 year	14.25	14.00	13.25
Banker's Acceptances			
1 month	16.00	14.80	13.30
3 months	15.80	15.20	13.60
6 months	15.00	15.00	13.70
Eurodollar Deposits			
1 month	17.00	15.19	13.63
2 months	17.00	15.56	14.63
3 months	17.00	15.63	14.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.75	13.00	8.00
1 month	14.75	13.75	13.00
3 months	14.00	13.25	12.63
Bank Holding Companies			
1 month	15.40	14.13	13.13
Dealer Placed:			
3 months	16.13	14.38	13.38
New AA Corporate Utility Bond	14.38	14.50	11.75
Tax Exempt			
6 month Project Notes	8.05	7.60	6.40
1 year AAA Bond	7.00	7.00	NA
5 year AAA Bond	7.00	7.00	NA
20 year AAA Bond	8.90	8.75	7.00

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday (Noon) Nov. 28, 1980

Rates moved disparately this week, as the Federal funds rate continued to ratchet upward over the period, while other rates were about unchanged on balance or actually somewhat lower. This was especially true of the Treasury coupon sector, where the recently auctioned long bond now is quoted at a substantial premium.

The performance was rather remarkable in a week containing three Treasury auctions followed by the Thanksgiving holiday. The key to this behavior is the widespread and growing conviction among market participants that rates currently are at or close to their peak levels. To some extent this conviction reflects perception of increased sluggishness in the economy. And in the case of Treasury securities, expectations of imminent Fed purchases in the market for seasonal reserve-adding purposes may play a role. Also, the response may in part reflect an increase in the credibility of the Federal Reserve's long-run policy to contain inflation by slowing the pace of monetary expansion. Certainly any reluctance on the part of the Fed to allow rates to rise quickly to levels necessary to pare back the excessive rate of money growth would surely have devastated that credibility. With M-1B currently about $10 billion above the top of its 1980 target range, it is clear that policy must remain restrictive for some time to come, and this week at least some market participants seemed willing to look beyond the unpleasant near-term consequences to the future benefits.

That was just as well, since the high and rising thrust of the funds rate could give no comfort. There is little doubt that the Fed has experienced operating difficulties in estimating and covering normal bank reserve needs--the recent pattern of almost daily RPs makes that clear. As we noted last week, such an event would contribute to a firm Fed funds rate. In addition, however, the Fed's administration of the discount window is evidently making many banks far more reluctant to tap the Fed for advances than they were prior to the recent hike in the discount rate. Such reluctance makes them bid more aggressively for funds before attempting to borrow from the Fed, thus tending to enlarge the spread of the funds rate over the discount rate (including the 2% surcharge). Hence, for whatever reason, Fed policy appears to be much more restrictive than the probable nonborrowed reserves path would suggest.

While we continue to anticipate a decline in the funds rate in the near future, we expect that the decline will be relatively limited, perhaps pulling the rate down to the 16% area. Further declines below that general level must wait for a significant slowing in the pace of money growth.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	11/28/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	17.75%	17.00%	15.50%
Effective since	11/26/80		
Discount Rate at Federal Reserve Bank	12.00	12.00	12.00
Federal Funds	18.50	18.00	12.46
Repurchase Agreements	16.00	16.00	11.50
U.S. Treasury Issues			
Bills			
3 months	14.85	14.89	11.89
6 months	15.25	15.19	12.26
1 year	14.85	14.51	11.91
Coupons			
2 years	13.97	13.74	11.34
4 years	13.24	13.21	10.50
7 years	12.85	12.82	10.45
10 years	12.62	12.75	10.36
Long Bond	12.24	12.35	10.08
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.15	16.10	12.90
3 months	17.10	16.35	13.10
6 months	16.25	16.00	13.25
1 year	14.25	14.25	12.40
Banker's Acceptances			
1 month	17.10	16.00	12.90
3 months	16.90	15.80	13.25
6 months	15.35	15.00	13.30
Eurodollar Deposits			
1 month	18.25	17.00	13.63
2 months	18.13	17.00	14.13
3 months	18.00	17.00	14.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	14.75	10.13
1 month	15.00	14.75	12.00
3 months	14.25	14.00	11.75
Bank Holding Companies			
1 month	16.63	15.40	11.75
Dealer Placed:			
3 months	NA	16.13	12.50
New AA Corporate Utility Bond	14.38	14.38	11.75
Tax Exempt			
6 month Project Notes	8.25	8.05	6.15
1 year AAA Bond	7.00	7.00	NA
5 year AAA Bond	7.40	7.00	NA
20 year AAA Bond	9.00	8.90	6.60

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12/9/80 B 4750-1 U

Financial Markets

Irving Trust

Irving Trust Company
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**Economic Research &
Planning Division**

Friday
(Noon)

Dec. 5, 1980

Thursday night, the Federal Reserve dispelled any lingering hopes market participants had that the Federal funds rate might begin to ease off during the week. The Fed's basic discount rate was raised to 13% from 12%, and the surcharge applied to large, frequent borrowers was lifted to 3% from 2%. Altogether, then, many larger banks face an effective discount rate of 16%, up from 14% previously. The impact of the move on short-term markets was profound and immediate, as the funds rate rose by a roughly similar amount to about 20% on Friday morning. The long-term markets, supported by widespread expectations that a peak in rates was near, were little affected. Against the background of an extremely tense international situation, the tone of the markets could aptly be described as panicky.

In the three months ended in October, large weekly reporting banks increased their business loans by almost $8 billion, while nonfinancial commercial paper contracted by almost $3 billion. More recent scattered data suggest that the trend has continued. The rapid fall-off of bond offerings has forced some would-be issuers to tap banks for interim sources of finance. Also contributing to the pattern has been the reduction in the spread of bank lending rates over the commercial paper rate.

Another source of the disparity in growth is the likely concern of some less highly rated paper issuers over their ability to continue to roll over their offerings. Fortunately, the present situation is fundamentally different from the Penn Central crisis of 1970, when the paper market contracted violently. First, there has been no such default this time. Second, much of the earlier panic reflected fears that, due to the banks' inability to issue CDs (Regulation Q ceilings were well below market rates), they might not be able to make good on credit lines backing the paper of issuers unable to roll over their outstandings. Fortunately, since Regulation Q ceilings are no longer applied to CDs, no such crisis of confidence is in store this time, however panicky the market may seem.

The most immediate consequence of this development is that some investors are replacing the commercial paper in their portfolios with CDs issued by banks to fund the increase of business loans. Since large CDs are not included in the narrow money stock, M-1B, that aggregate is not directly affected. However, to the extent that the business loans are accompanied by higher levels of compensating balances, M-1B would be raised, but only by a small amount relative to the recent surge in the money stock.

William C. Melton

Note: The full text of this letter is available to Telerate Subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	12/5/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	19.00%	17.75%	15.25%
Effective since	12/5/80		
Discount Rate at Federal Reserve Bank	13.00	12.00	12.00
Federal Funds	20.25	18.50	13.63
Repurchase Agreements	19.75	16.00	12.50
U.S. Treasury Issues			
Bills			
3 months	16.57	14.85	12.30
6 months	16.22	15.25	12.50
1 year	14.71	14.85	11.90
Coupons			
2 years	14.39	13.97	11.18
4 years	13.65	13.24	10.35
7 years	13.15	12.85	10.30
10 years	12.93	12.62	10.24
Long Bond	12.44	12.24	10.00
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.50	17.15	13.00
3 months	18.45	17.10	13.10
6 months	17.15	16.25	13.10
1 year	15.00	14.25	12.45
Banker's Acceptances			
1 month	18.50	17.10	13.05
3 months	18.50	16.90	12.85
6 months	17.15	15.35	13.10
Eurodollar Deposits			
1 month	19.50	18.25	13.75
2 months	19.50	18.13	13.88
3 months	19.00	18.00	14.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.00	15.00	13.00
1 month	16.25	15.00	13.00
3 months	14.25	14.25	11.50
Bank Holding Companies			
1 month	17.50	16.63	13.00
Dealer Placed:			
3 months	17.50	NA	13.00
New AA Corporate Utility Bond	14.50	14.38	11.50
Tax Exempt			
6 month Project Notes	8.00	8.25	6.15
1 year AAA Bond	7.50	7.00	NA
5 year AAA Bond	8.25	7.40	NA
20 year AAA Bond	9.85	9.00	6.70

This information represents prevailing market yields.

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All yields are on the offered side of the market.

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12/16/80 B 4750-1

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Dec. 12, 1980

This week, market interest rates continued their sharp upward surge, with new record high levels being set virtually everywhere. To say that trading activity was thin and nervous would considerably understate the case. The attitude of market participants concerning a possible near-term drop in rates soured significantly, as the Federal Reserve on two occasions entered the market to drain reserves when the Federal funds rate showed signs of softening. Though rates on short-term money market instruments scored large increases over the week, arguably the most pessimistic reaction took place in the long-term markets. Ever since Treasury's new long bond was auctioned early in November, it has traded at a premium over par, but on Wednesday it dropped below par and by late Thursday had declined over five points in value compared to the week before. That lifted its yield to over 13%--a record. In this setting, actions by the Fed to meet seasonal reserve needs in the statement week starting Thursday were cold comfort to market participants, some of whom wondered about the possibility of another discount rate hike following close on the heels of the last.

Altogether, then, the market's frame of mind is not exactly positive, despite some paring back of rates that set in on Friday. The source of the current rate pressure is the recent increase of the money stock at rates well above the Fed's targets. Since the Fed has refused to accommodate that growth, upward rate pressure--abetted by increases in the discount rate--has been the result. In addition, the Fed has compounded the pressure through the pattern of its open market operations. At this time of the year, banks lose reserves as the public withdraws large amounts of currency for holiday buying; our projections are that banks will lose about $4 billion of reserves that way during December. Faced with these pressures, banks tend to bid aggressively for funds, and the Fed's unwillingness to provide permanent additions to reserves until last Wednesday's bill purchase amplified the uneasiness. This probably accounts for a portion of the large 4% spread of the funds rate over the discount rate (including the 3% supplement).

But these things too will pass. For one thing, there is no doubt that the current punitively high rate levels will soon slow the pace of economic activity--including money stock growth. That will put less pressure on the Fed, and thus on everyone else. In addition, as the first quarter begins, no banks will be subject to the 3% discount rate supplement, since they will not have borrowed during the quarter. With a "clean slate," they should be less averse to borrowing and thus somewhat less aggressive in bidding for funds. Similarly, during the January-February period, the holiday cash drain reverses, and banks tend to become flush with reserves. The Fed will drain the reserve excess, of course, but other things being equal, banks should still be less aggressive in the funds market, thus reducing pressure on rates.

We hold to our expectation that rates should decline within a month or two.

William C. Melton

Note: The full text of this letter is available to Telerate Subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	12/12/80 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	19.00%	15.25%
Effective since	12/10/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	12.00
Federal Funds	20.00	20.25	14.25
Repurchase Agreements	19.75	19.75	13.65
U.S. Treasury Issues			
Bills			
3 months	17.57	16.57	12.76
6 months	16.84	16.22	12.95
1 year	15.49	14.71	12.00
Coupons			
2 years	14.77	14.39	11.88
4 years	14.04	13.65	10.86
7 years	13.40	13.15	10.40
10 years	13.26	12.93	10.38
Long Bond	12.92	12.44	10.14
Negotiable Certificates of Deposit-Secondary Market			
1 month	20.90	18.50	14.00
3 months	20.50	18.45	13.95
6 months	18.55	17.15	13.85
1 year	15.50	15.00	12.50
Banker's Acceptances			
1 month	20.50	18.50	14.00
3 months	20.85	18.50	14.15
6 months	18.65	17.15	14.05
Eurodollar Deposits			
1 month	22.38	19.50	14.50
2 months	21.63	19.50	14.81
3 months	21.25	19.00	14.81
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	19.38	17.00	13.25
1 month	17.50	16.25	13.63
3 months	16.00	14.25	12.00
Bank Holding Companies			
1 month	20.25	17.50	13.75
Dealer Placed:			
3 months	20.00	17.50	13.75
New AA Corporate Utility Bond	15.25	14.50	11.85
Tax Exempt			
6 month Project Notes	8.75	8.00	6.05
1 year AAA Bond	8.00	7.50	NA
5 year AAA Bond	8.00	8.25	NA
20 year AAA Bond	9.75	9.85	6.70

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12-22-80 B 4750-1 U

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday (Noon) Dec. 19, 1980

Financial markets, nervous and on the lookout for some palpable indication that the peak in interest rates is here, finally seized on a potential harbinger of reduced rate pressures: a report on Wednesday that the incoming Reagan Administration was considering a set of emergency economic measures to present to Congress shortly after the inauguration. Although little in the proposals was new, the prospect led to a substantial rally this week, as many dealers--especially those with short positions--got "peak fever." The disease was easy to contract, since dealer positions in general were extremely light. In contrast, retail demand was much more immune.

That underscored the fragility of the rally. Besides the fact that the Reagan proposals were tentative, with uncertain legislative prospects, some participants were reminded of the "moral equivalent of war"--big words followed by few tangible results. Indeed, early escalation of rhetoric clearly carries a risk of increasing cynicism and disappointment later on, when the legislative mill grinds slowly. In addition, financing rates, reflecting Federal funds stuck in the 20% area, are well above rates on Treasury securities. Thus, as has happened several times in the last several weeks, the rally may stall or retreat temporarily due to lack of confirmation in the funds rate. All in all, then, the market is far from convinced that the peak really is here.

The FOMC met today against a background of economic data suggesting continued economic recovery in the current quarter--albeit with signs of weakness starting to emerge, especially in the rate-sensitive housing and auto sectors. The recent weakness of commodities prices should provide some satisfaction to the Committee members. Nonetheless, M-1B remains well above the top of its target, and there seems little prospect of an easing of the Fed's policy stance being voted at the meeting. Rather, the best bet is that policy will be left essentially unchanged, so that any near-term declines in the funds rate must be validated by a slowing in the pace of monetary growth.

Market participants should be impressed by the Fed's determination to take seriously its goal of gradually slowing the long-run rate of monetary growth. In past months, rumors have abounded that the Fed was either targeting interest rates, playing politics with the short-term growth of the money stock, or--whatever. There is no question that credibility has been a scarce commodity lately, given the economy's miserable inflation performance. But credibility can be earned, and Chairman Volcker and the other Committee members seem to understand that.

Near term, as we have emphasized several times in earlier letters, we have doubts concerning the trend of interest rates. By early next year, however, we are confident that rates will be declining substantially.

William C. Melton

Note: The full text of this letter is available to Telerate Subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	12/19/80 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	21.00%	20.00%	15.25%
Effective since	12/16/80		
Discount Rate at Federal Reserve Bank	13.00%	13.00%	12.00%
Federal Funds	20.50	20.00	13.88
Repurchase Agreements	19.25	19.75	12.63
U.S. Treasury Issues			
Bills			
3 months	15.62	17.57	12.65
6 months	15.19	16.84	12.66
1 year	14.38	15.49	11.88
Coupons			
2 years	14.06	14.77	11.38
4 years	13.32	14.04	10.54
7 years	12.80	13.40	10.36
10 years	12.60	13.26	10.42
Long Bond	12.19	12.92	10.16
Negotiable Certificates of Deposit-Secondary Market			
1 month	20.15	20.90	13.30
3 months	19.15	20.50	13.40
6 months	17.10	18.55	13.50
1 year	16.00	15.50	12.50
Banker's Acceptances			
1 month	19.90	20.50	13.50
3 months	18.75	20.85	13.60
6 months	16.00	18.65	13.55
Eurodollar Deposits			
1 month	21.25	22.38	14.69
2 months	20.75	21.63	14.69
3 months	19.88	21.25	14.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	19.50	19.38	11.00
1 month	17.00	17.50	13.50
3 months	16.50	16.00	12.00
Bank Holding Companies			
1 month	19.75	20.25	13.38
Dealer Placed:			
3 months	14.00	20.00	13.50
New AA Corporate Utility Bond	14.50	15.25	11.85
Tax Exempt			
6 month Project Notes	8.40	8.75	5.75
1 year AAA Bond	7.90	8.00	NA
5 year AAA Bond	8.30	8.00	NA
20 year AAA Bond	10.00	9.75	6.75

This information represents prevailing market yields.

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1-16-81 B 4750-1 U

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday
(Noon)

Jan. 9. 1981

Securities markets took on a decidedly optimistic tone early this week, when a $2.8 billion drop in M-1B was reported for the week ending December 24, extending the recent slowdown in money growth. By mid-week, however, the early rate declines had been reversed, reflecting a Federal funds rate that seemed stuck in the 19%-20% range.

The high overnight rates put substantial pressure on securities dealers who had taken positions earlier in the week in anticipation of further rate declines. A graphic illustration of the financing squeeze occurred on Tuesday, when the Federal Reserve offered $1.5 billion of overnight repurchase agreements for the account of a customer. The entire amount was taken by the bid of one firm at a very high rate--a quite unusual event.

What convinced many market participants that the high funds rate was not a temporary aberration was the Fed's execution of overnight reverse repurchase agreements (which drain reserves) on Wednesday. Many concluded that the Fed did not intend to allow the funds rate to decline, perhaps due to skepticism as to how permanent the recent slowdown in money growth might be. There is no doubt, of course, that the Fed has a healthy skepticism with regard to weekly money data and might reasonably want to see more evidence of a trend before undertaking a major change in its policy stance. But that does not mean that it intends to peg the funds rate in the 19%-20% area, as some seem to believe.

As always, it is important to have perspective. During the statement week ended Wednesday, the reserves market was under pressure for several essentially technical reasons--foremost among them the decline in Federal Reserve float from its near-record level of the week before. Such a drop reduces bank reserves, and the Fed undertook to offset the shortage, but the situation nevertheless imparted some aggressiveness to banks bidding for funds. That contributed to upward pressure on the funds rate. This situation--in reduced degree--is likely to continue for the next week or so (absent some major, unpredictable swing in float).

But after that, the reserves environment will become increasingly favorable to a downward drift in the funds rate. Seasonal inflows of currency from the public to the banks will tend to create a reserve excess, thus--other things being equal --reducing banks' aggressiveness in bidding for funds. Also, few banks are now subject to the 3% supplement to the Fed's 13% discount rate, making their cost of funds from that source much lower than in December. Last--but definitely not least--we expect that the lagged effects of the recent punitively high interest rates will continue to produce relatively sluggish money growth--though nothing like the contraction in the second quarter of 1980.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	1/9/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.50%	15.25%
Effective since	1/9/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	12.00
Federal Funds	19.50	20.00	14.07
Repurchase Agreements	19.25	18.50	12.50
U.S. Treasury Issues			
Bills			
3 months	15.85	15.45	12.15
6 months	15.43	15.10	12.55
1 year	14.01	13.98	11.80
Coupons			
2 years	13.30	13.12	11.27
4 years	13.00	12.75	10.62
7 years	12.64	12.52	10.59
10 years	12.35	12.46	10.61
Long Bond	12.02	12.01	10.31
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.25	17.60	13.30
3 months	17.65	17.25	13.35
6 months	16.20	16.00	13.37
1 year	14.75	14.50	13.55
Banker's Acceptances			
1 month	18.25	17.25	13.15
3 months	17.90	16.25	13.35
6 months	16.25	14.50	13.40
Eurodollar Deposits			
1 month	18.88	19.38	14.00
2 months	18.50	18.50	14.13
3 months	18.13	18.00	14.19
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.00	16.00	12.25
1 month	16.25	16.75	12.75
3 months	15.00	15.00	12.00
Bank Holding Companies			
1 month	17.63	17.75	13.00
Dealer Placed:			
3 months	17.00	16.50	13.00
New AA Corporate Utility Bond	14.50	14.38	11.88
Tax Exempt			
6 month Project Notes	7.25	7.75	5.75
1 year AAA Bond	6.75	7.25	NA
5 year AAA Bond	7.00	7.50	NA
20 year AAA Bond	8.25	8.75	6.70

This information represents prevailing market yields.

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Jan. 16, 1981

Rates were highly volatile this week, as market participants struggled to cope with ambiguous economic data, expectations of a large increase in the money supply for the first week of January (to be reported this evening), and possible financial pressures created by the prospect of an imminent settlement of the Iranian hostage crisis. Under the circumstances, it was difficult to fathom any direction in the markets.

The impact of any settlement of the Iranian crisis on reserves available to banks and on money market rates depends crucially on the amount of funds transferred from blocked accounts at U.S. banks, the timing of the transfer, and the way the transfer is handled. If the funds transferred from banks are held by the Federal Reserve, then the result would be a reduction of reserves, which the Fed would have to offset through reserve-adding open market operations. On the other hand, if the Iranians used the funds to purchase assets (e.g., foreign currencies, Eurodollar deposits, etc.) or goods and services, then the funds would flow back to the banks. In that case, the reserve impact would be minor, though some temporary distortions could well arise.

Compounding the nervousness of market participants was the widespread expectation that the money stock data to be reported Friday night for the week ending January 7 would show a very large increase. It was little comfort that much of the increase was likely to be due to early payment of Social Security checks (increasing both M-1A and M-1B). In addition, an influx of NOW account balances authorized in 42 states at the beginning of the year would depress M-1A by the amount of demand deposits shifted to NOWs (with no net impact on M-1B) and would increase M-1B by the amount of savings-type accounts shifted to NOWs (with no impact on M-1A). In subsequent weeks, the effect of the Social Security payment should tend to be washed out, and the impact of new NOW accounts probably will also be minor. Growth of the aggregrates likely will be fairly sluggish. (Note: Withdrawal of the Iranian deposits would have no effect on the money stock, since foreign accounts are already excluded from the money data.)

William C. Melton

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	1/16/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.00%	15.25%
Effective since	1/9/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	12.00
Federal Funds	19.75	19.50	13.63
Repurchase Agreements	19.00	19.25	12.50
U.S. Treasury Issues			
Bills			
3 months	16.00	15.85	12.55
6 months	15.40	15.43	12.76
1 year	14.00	14.01	11.96
Coupons			
2 years	13.20	13.30	11.47
4 years	12.80	13.00	10.72
7 years	12.70	12.64	10.75
10 years	12.50	12.35	10.78
Long Bond	12.20	12.02	10.54
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.65	18.25	13.30
3 months	17.85	17.65	13.45
6 months	16.25	16.20	13.45
1 year	14.90	14.75	12.75
Banker's Acceptances			
1 month	18.65	18.25	13.35
3 months	18.05	17.90	13.55
6 months	16.20	16.25	13.55
Eurodollar Deposits			
1 month	19.75	18.88	14.06
2 months	19.25	18.50	14.13
3 months	18.88	18.13	14.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.25	17.00	12.88
1 month	17.00	16.25	13.00
3 months	16.25	15.00	11.75
Bank Holding Companies			
1 month	18.25	17.63	13.00
Dealer Placed:			
3 months	17.25	17.00	12.88
New AA Corporate Utility Bond	14.75	14.50	12.05
Tax Exempt			
6 month Project Notes	7.15	7.25	5.65
1 year AAA Bond	7.00	6.75	NA
5 year AAA Bond	7.20	7.00	NA
20 year AAA Bond	8.60	8.25	7.00

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Jan. 23, 1981

This week, financial markets were dominated by three factors: continuing assessment of the money stock data reported last Friday, the impact of the transfer abroad of Iranian financial assets, and the unexpectedly strong real GNP and inflation numbers. On balance, most rates moved somewhat higher over the week.

As noted in last week's letter, the multibillion-dollar Iranian transfer potentially could have been very disruptive to the funds market. Fortunately, adroit handling of the problem by the Federal Reserve made the impact minimal. (Occasionally it is useful to pause and reflect on the benefits of having a competent central bank!)

The most disturbing factor of the week for the credit markets was the Wednesday report that real GNP grew at a surprisingly strong 5% rate in the fourth quarter, while inflation as measured by the GNP deflator accelerated to an 11.2% rate. The markets, always sensitive to inflation news, reacted sharply. In addition, some participants failed to recognize the Fed's outright sale that day of Treasury bills (a permanent drain of reserves) as a technical operation. (Caution: there is a high probability that the Fed will need to undertake another outright sale in the next week or two for strictly seasonal reasons.)

Though the adverse impact of the GNP numbers on the near-term interest rate outlook cannot be denied, they also contain a constructive message. With the aid of hindsight it is clear that the economy was far more robust in the second half of 1980 than anyone--including the Fed--imagined. That strength was reflected immediately in the strong demand for money. Adhering to its monetary aggregates targets, the Fed promptly moved to a restrictive posture, rather than temporarily accommodate the expansion, as would have happened under its old operating procedures. Though the new reserves-oriented approach makes financial markets extremely volatile, before too long it should produce palpable benefits.

However, monetary aggregates targeting is a dicey game when NOW accounts are being introduced--witness the $9.9 billion increase in NOWs during the first week in January! As noted in last week's letter, interpretation of the aggregates is difficult without knowing the source of the inflows into NOWs. For what it is worth, data suggest that the November 1978 authorization of NOWs in New York and New Jersey lifted the growth rate of M-1B by almost 5% relative to M-1A in the first quarter of 1979. The growth differential declined to a negligible level by the fourth quarter of 1980, indicating that the shift was by then essentially complete. Thus the current distortion will probably be over by year-end; but in the near term, M-1B growth is likely to be very stong, with M-1A much weaker. In this setting the Fed will probably focus mainly on M-2, which is not affected by the shift to NOWs. (Warning: the published M-2 data include nonseasonally adjusted money market mutual fund shares, which are generally very strong in January.)

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	1/23/81	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.00%	15.25%
Effective since	1/9/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	12.00
Federal Funds	18.75	19.75	14.00
Repurchase Agreements	18.25	19.00	12.40
U.S. Treasury Issues			
Bills			
3 months	16.44	16.00	12.87
6 months	15.94	15.40	12.98
1 year	14.63	14.00	12.36
Coupons			
2 years	13.68	13.20	11.82
4 years	13.14	12.80	11.04
7 years	12.84	12.70	11.05
10 years	12.79	12.50	11.09
Long Bond	12.35	12.20	10.96
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.50	18.65	13.50
3 months	17.85	17.85	13.55
6 months	16.45	16.25	13.75
1 year	15.25	14.90	13.25
Banker's Acceptances			
1 month	18.10	18.65	13.30
3 months	17.85	18.05	13.60
6 months	16.40	16.20	13.85
Eurodollar Deposits			
1 month	19.00	19.75	14.25
2 months	19.13	19.25	14.44
3 months	18.75	18.88	14.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	16.00	18.25	12.50
1 month	17.50	17.00	13.00
3 months	16.50	16.25	12.00
Bank Holding Companies			
1 month	17.75	18.25	13.05
Dealer Placed:			
3 months	14.00	17.25	13.15
New AA Corporate Utility Bond	14.75	14.75	12.40
Tax Exempt			
6 month Project Notes	7.55	7.15	5.85
1 year AAA Bond	6.85	7.00	NA
5 year AAA Bond	7.00	7.20	NA
20 year AAA Bond	9.15	8.60	7.00

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Financial Markets

Irving Trust

Irving Trust Company
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New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Jan. 30, 1981

Two events highlighted the week in the financial markets: the rapid drop in the Federal funds rate and the demonstrated sensitivity of market participants to supply pressure from new issues in the intermediate- and long-term sector.

Though the funds rate drop was dramatic, it was almost certainly not the result of an overt move by the Federal Reserve to put the rate down to a lower level. Rather, the pattern of the Fed's reserve-draining operations strongly suggests that the Fed was doing what it says it does: keeping nonborrowed reserves on a growth path consistent with the annual targets for money growth. The remarkable thing was not that the funds rate declined but that it stayed in the 19%-20% range for as long as it did while the volume of borrowing from the discount window was reduced sharply in recent weeks. The drop coincided with a seasonal change in the reserve needs of the banking system. In previous weeks, the Fed had to supply substantial amounts of reserves to meet seasonal needs; but in the statement week ended on Wednesday, the pattern reversed, and substantial draining of reserve excesses became necessary. While the open market operations themselves were for the most part routine, the psychology of funds traders was affected significantly. As had been suggested here several times in recent weeks, banks became less aggressive in bidding for funds, and the result was a softening funds rate, despite the Fed's draining of reserves. Some further near-term declines in the funds rate are possible, as the seasonal reserve excess should continue for at least another week.

The FOMC meets next week against a background of generally stronger than expected economic activity, with indications of a slowdown only beginning to emerge. Since inflows into NOW accounts are making interpretation of M-1A and M-1B almost impossible (though some preliminary survey data on the sources of NOW inflows will probably be available in time for the meeting), the committee will probably put more weight on M-2, which is not materially distorted by the shift to NOWs. M-2 has been growing near the top of its target range. In this setting, the committee probably will vote to leave its path of reserves provision essentially unchanged. For now, a cut in the discount rate appears unlikely.

The market's reaction to the Treasury's Wednesday announcement of its quarterly refunding next week illustrates the sensitivity of the long-term market to supply pressures. The price of the long bond promptly dropped about a point, lifting its yield by about 10 basis points. The reason is that not only is the refunding large at $8.5 billion, but $2.25 billion of long-term bonds are being offered, the first time the offering of that maturity has exceeded $2 billion. Add to that an awesome visible supply of corporate issues, and the skittish behavior of bond market participants is readily understandable. The potential congestion of new issues need not mean higher bond rates, but it does suggest that in the near term declines in bond rates will be hard-fought.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	1/30/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.00%	15.25%
Effective since	1/9/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	12.00
Federal Funds	17.25	18.75	13.38
Repurchase Agreements	16.50	18.25	12.38
U.S. Treasury Issues			
Bills			
3 months	15.45	16.44	12.60
6 months	15.00	15.94	12.82
1 year	14.00	14.63	12.42
Coupons			
2 years	13.25	13.68	11.81
4 years	12.95	13.14	11.20
7 years	12.75	12.84	11.20
10 years	12.70	12.79	11.14
Long Bond	12.30	12.35	11.12
Negotiable Certificates of Deposit-Secondary Market			
1 month	16.80	18.50	13.15
3 months	16.75	17.85	13.40
6 months	15.90	16.45	13.55
1 year	14.85	15.25	13.20
Banker's Acceptances			
1 month	17.00	18.10	13.20
3 months	16.60	17.85	13.50
6 months	16.05	16.40	13.60
Eurodollar Deposits			
1 month	17.63	19.00	13.94
2 months	17.50	19.13	14.19
3 months	17.38	18.75	14.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	16.00	16.00	12.00
1 month	16.25	17.50	12.25
3 months	15.75	16.50	13.00
Bank Holding Companies			
1 month	16.50	17.75	13.05
Dealer Placed:			
3 months	16.00	14.00	13.25
New AA Corporate Utility Bond	15.00	14.75	12.50
Tax Exempt			
6 month Project Notes	7.25	7.55	5.70
1 year AAA Bond	7.00	6.85	NA
5 year AAA Bond	7.15	7.00	NA
20 year AAA Bond	9.20	9.15	7.00

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
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Economic Research &
Planning Division

Friday
(Noon)

Feb. 6, 1981

On balance, most rates moved up slightly over the week, with the largest increases noted in the long-term sectors. The uncertain pattern of day-to-day movements reflected market participants' continuing efforts to assess the outcome of the Treasury's large $8.5 billion quarterly refunding operation (as well as the outlook for further substantial Treasury offerings in the future), together with the scope and prospects of the new administration's economic policy. Also weighing on the market was the fact that the economy still has given little clear indication of the slowdown so widely expected. For example, the January unemployment rate reported Friday morning was unchanged at 7.4%. In that setting few if any expected the Tuesday meeting of the Federal Open Market Committee to endorse any tangible easing of the Fed's policy stance.

The standout exception to the general firming of interest rates was the Federal funds rate. Since the statement week ended January 7, when funds averaged 20.06%, the rate has dropped in every subsequent week, reaching an average of 17.19% in the week ended Wednesday. Thus far in the current statement week, funds appear to be trading comfortably at 17% or so. At that level, the funds rate stands in a reasonable relationship to the 13% discount rate (plus the 3% supplementary charge for frequent borrowers), given that net borrowed reserves appear to be holding in the region of $700 million. In addition, the pattern of seasonal reserve excesses that has contributed to the decline of the funds rate during recent weeks, despite the Fed's largely routine reserve-draining operations, is now over. Thus further downward movement of the funds rate is likely to be contingent on concrete progress in slowing the pace of monetary growth.

Ah, there's the rub--which monetary aggregate? M-1A is in a nosedive so far this year, while M-1B is zooming, due to the nationwide authorization of NOW accounts at the start of the year. M-2--not materially affected by the NOWs--grew at the top of its target range last year and should be strong in January. Since the Fed--prudently--is probably giving most weight to M-2 these days, it is hard to see how the near-term movements of the aggregates would point to reduced pressure on interest rates.

That does not mean that rates must move higher soon, as some participants apparently construed Chairman Volcker's congressional testimony this week to mean. Nevertheless, with the total corporate bond calendar well over $10 billion--about double the average level of the last several years--while Treasury financing needs are large, estimated by the Treasury at $36.5 billion for this quarter, one does not need much imagination to see visions of congestion in the intermediate- and long-term markets during the first half of this year. That could produce some momentary rate increases in the sectors involved.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	2/6/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.50%	20.00%	15.25%
Effective since	2/3/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	12.00
Federal Funds	17.00	17.25	13.00
Repurchase Agreements	16.65	16.50	11.75
U.S. Treasury Issues			
Bills			
3 months	15.75	15.45	12.30
6 months	15.33	15.00	12.84
1 year	14.50	14.00	12.63
Coupons			
2 years	13.78	13.25	12.00
4 years	13.33	12.95	11.40
7 years	13.10	12.75	11.60
10 years	13.02	12.70	11.55
Long Bond	12.66	12.30	11.60
Negotiable Certificates of Deposit-Secondary Market			
1 month	16.75	16.80	13.25
3 months	16.65	16.75	13.40
6 months	16.10	15.90	13.70
1 year	15.50	14.85	13.40
Banker's Acceptances			
1 month	16.50	17.00	13.15
3 months	16.40	16.60	13.43
6 months	16.10	16.05	13.73
Eurodollar Deposits			
1 month	17.44	17.63	13.81
2 months	17.44	17.50	14.19
3 months	17.44	17.38	14.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.50	16.00	8.00
1 month	16.00	16.25	13.00
3 months	15.50	15.75	12.25
Bank Holding Companies			
1 month	16.38	16.50	13.13
Dealer Placed:			
3 months	14.90	16.00	13.05
New AA Corporate Utility Bond	15.25	15.00	13.10
Tax Exempt			
6 month Project Notes	6.85	7.25	5.50
1 year AAA Bond	6.75	7.00	NA
5 year AAA Bond	7.40	7.15	NA
20 year AAA Bond	9.00	9.20	7.00

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Financial Markets

Irving Trust

Irving Trust Company
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**Economic Research &
Planning Division**

Friday
(Noon)

Feb. 13, 1981

This was a dramatic week for financial markets, as participants focused on continuing indications of strength in the economy, together with the large financing needs of the Treasury. The pessimistic tone was sufficient to cause the markets to ignore indications that the Federal Reserve--contrary to most expectations--may have eased its policy stance somewhat at the FOMC meeting on February 3. Long-term bond rates rose rapidly to levels exceeding even the records set in early 1980.

The most important economic data released this week pointed to a surprising degree of strength in retail sales around year-end, together with a decline in business inventories in December. Thus despite historically high interest rates, the economy has recently continued robust--with the conspicuous exceptions of the credit-sensitive auto and housing industries. Such economic strength is almost universally expected to abate soon. Nevertheless, many market participants surely must be reflecting that the record of the past two or three quarters is a virtually universal underprediction of the degree of strength in the economy, with consequent misforecasting of interest rate trends. That attitude contributes to the mood of pessimism, especially in the intermediate- and long-term sectors of the market.

The other principal problem is the looming mass of prospective offerings. The corporate bond calendar is greatly swollen relative to levels in earlier years, and investors may confidently anticipate a surge of offerings, most likely during the first half of this year. But the issuer receiving most attention these days is the Treasury. Currently the Treasury's cash balance, at about $6 billion, is roughly half its year-ago level. That reflects in part the impact of the debt ceiling, which was only recently raised by Congress. Nevertheless, the fundamental fact is that the Treasury has a massive financing job to do in the months ahead. One could hardly imagine a less auspicious setting in which to pursue a discussion of whether tax cuts should precede, accompany, or follow budget cuts. If nothing else, the rapid rise of the rate on the Treasury's long bond to a record level suggests that investors are in no mood to experiment with Federal deficits near term, even if they share the long-run optimism of proponents of "supply-side" economics.

On Wednesday, the Fed allowed the Fed funds rate to sink precipitously without attempting to drain reserves. Funds averaged 14.33% that day, compared to 16.51% for the week as a whole. Though it is clearly too early to be certain, this action would appear to make sense only if the Fed's implied targets for discount window borrowing have been scaled down following the February 3 FOMC meeting. A likely rationale for such a change in the Fed's operating stance would be the very sluggish growth in M-1B, despite the infusions of NOW accounts into that aggregate. The Fed's inactivity today made the funds rate adjust downward, and further declines are possible. Sooner or later that will relieve some of the gloom in financial markets.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	2/13/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.50%	19.50%	15.25%
Effective since	2/3/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	16.50	17.00	14.75
Repurchase Agreements	16.00	16.65	12.50
U.S. Treasury Issues			
Bills			
3 months	16.35	15.75	13.63
6 months	16.22	15.33	14.15
1 year	15.12	14.50	13.82
Coupons			
2 years	14.53	13.78	13.10
4 years	14.08	13.33	12.25
7 years	13.64	13.10	12.20
10 years	13.58	13.02	12.15
Long Bond	13.19	12.66	12.10
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.20	16.75	13.75
3 months	17.25	16.65	14.00
6 months	17.10	16.10	14.45
1 year	16.40	15.50	13.75
Banker's Acceptances			
1 month	16.85	16.50	13.60
3 months	16.60	16.40	14.00
6 months	15.90	16.10	14.50
Eurodollar Deposits			
1 month	17.88	17.44	14.75
2 months	18.06	17.44	14.88
3 months	18.13	17.44	15.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	16.00	15.50	12.75
1 month	16.25	16.00	13.00
3 months	15.50	15.50	12.25
Bank Holding Companies			
1 month	16.50	16.38	13.13
Dealer Placed:			
3 months	15.50	14.90	13.38
New AA Corporate Utility Bond	15.50	15.25	13.75
Tax Exempt			
6 month Project Notes	7.60	6.85	6.25
1 year AAA Bond	7.10	6.75	NA
5 year AAA Bond	7.75	7.40	NA
20 year AAA Bond	9.00	9.00	7.50

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

Feb. 20, 1981

This week financial markets suddenly stopped ignoring the Federal Reserve (in favor of concentrating on the various business activity statistics) and began to perceive that the pattern of softness in the Federal funds rate was no aberration. Instead, as reported here last week, it evidenced a shift toward ease in the policy stance of the Federal Reserve. The rally that followed the market's perception of this fact was dramatic. Rates on 90-day Treasury bills were pared back over 100 basis points, while the Treasury's long bond soared about 5 points in price.

Where do we go from here? The high interest rates of the past several months are clearly beginning to "bite" and are trimming the growth of the monetary aggregates. For example, despite the influx of NOW accounts, M-1B growth has been essentially flat since November. That pattern clearly reduces the pressure on the Fed to constrain reserve availability to the banking system. Nevertheless, one should keep in mind that the minutes of the December 18 FOMC meeting revealed that the Committee was very concerned about letting interest rates fall too far, too fast. With that in mind, it would not be surprising to see overt resistance from the Fed in the next few weeks if the funds rate should drop as low as 13% or 14%. Another problem is the impending heavy supply of Treasury debt offerings as well as the huge pent-up supply of corporate bond issues. Clearly, the long-term sector will have especially great difficulty in participating in the continued rally.

For technical reasons the Fed should be entering the market several times in the next few weeks to drain reserves temporarily. Though some participants will probably interpret these actions as running counter to the recent easing of the Fed's policy stance, in practice they need not produce any increases in the funds rate. In fact, to the extent that the operations were delayed, funds might be expected to be soft.

Finally, the descent of the funds rate below the 16% level naturally raises the question of whether--and when--the Federal Reserve discount rate or the 3% supplementary charge to large, frequent borrowers will be reduced. In view of the Fed's reluctance to encourage a pell-mell drop of interest rates like that of last spring, the betting is good that the supplement will be cut or dropped entirely well before the 13% basic rate itself is changed. As for the timing of the change of the supplement, the next week or two appears to be a good possibility.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	2/20/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.50%	19.50%	16.25%
Effective since	2/3/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	14.50	16.50	15.00
Repurchase Agreements	14.00	16.00	13.75
U.S. Treasury Issues			
Bills			
3 months	14.83	16.35	14.18
6 months	14.70	16.22	14.65
1 year	14.20	15.12	15.18
Coupons			
2 years	13.63	14.53	14.62
4 years	13.27	14.08	14.10
7 years	13.00	13.64	13.30
10 years	12.94	13.58	13.25
Long Bond	12.57	13.19	12.85
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.15	17.20	15.05
3 months	15.15	17.25	15.10
6 months	15.40	17.10	15.35
1 year	15.15	16.40	15.75
Banker's Acceptances			
1 month	15.85	16.85	14.90
3 months	15.60	16.60	15.50
6 months	14.45	15.90	16.05
Eurodollar Deposits			
1 month	15.94	17.88	16.25
2 months	16.25	18.06	16.38
3 months	16.38	18.13	16.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	16.00	13.25
1 month	14.25	16.25	14.00
3 months	14.00	15.50	13.00
Bank Holding Companies			
1 month	15.00	16.50	14.25
Dealer Placed:			
3 months	14.63	15.50	14.30
New AA Corporate Utility Bond	15.00	15.50	14.40
Tax Exempt			
6 month Project Notes	6.80	7.60	7.10
1 year AAA Bond	7.00	7.10	NA
5 year AAA Bond	7.65	7.75	NA
20 year AAA Bond	9.40	9.00	7.95

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

Feb. 27, 1981

Money market rates on balance worked down slightly this week, while long-term rates remained essentially unchanged or moved only slightly higher. The rate on Federal funds rose from the 14+% level it reached last Friday and traded for the most part slightly above 15%. Though it is impossible to be certain at this point, it appears that the Federal Reserve--consistent with the views expressed in the December FOMC meeting--intends to resist any rapid near-term declines in the rate.

The main event of the week was Chairman Volcker's congressional testimony. The Chairman reaffirmed the Board's intention to lower the pace of monetary growth gradually, so that 1981 target ranges for M-1A and M-1B have been lowered 1/2% from their 1980 levels--to 3% to 5 1/2% and 3 1/2% to 6%, respectively. However, due to the newly authorized NOW accounts' distorting effects on the narrow aggregates, these target ranges have been adjusted by the Fed to -4 1/2% to -2% for M-1A and 6% to 8 1/2% for M-1B. Currently, both aggregates are growing very sluggishly relative to the targets, suggesting the possibility of some further easing of the Fed's policy stance in the future. However, barring severe contraction in the aggregates, this will probably not occur in the next few weeks.

Another major theme in Volcker's testimony was the need for Congress to enact budget cuts. Specifically, the Chairman stated, "I see no risk in overdoing spending cuts... the risk is all in not doing enough." Ironically, the administration provided some confirmation of this point in the afternoon following Volcker's Wednesday morning testimony, when it announced that corrections of estimated fiscal year 1982 expenditures had added several billion dollars to the outlays. Predictably, long-term rates rose on the news.

Though some signs of investor support for the intermediate- and long-term markets are beginning to emerge, the situation is still cloudy. Dealers continue to hold substantial quantities of recent Treasury issues, and the calendar of corporate bond offerings is large and likely to grow, particularly in the 30-day visible area.

Moreover, as indicated earlier, a substantial probability exists that the Federal funds rate is at or near the bottom of the acceptable range set by the Fed. In the past, that would not have mattered much, since the range was adjusted whenever it became a serious obstacle to implementation of the Fed's targets for reserves provision. However, the Fed clearly does not want to repeat last spring's error of allowing rates to fall too far, too fast, and that argues for a more serious funds rate constraint. Also, it is probably relevant that the Reagan administration has made slowing the pace of monetary growth a key part of its economic strategy. Hence, near term, further declines of interest rates are likely to be conditioned on continued sluggishness of monetary growth and signs of economic weakness, which--despite a few suggestive indicators--have yet to emerge in a convincing way.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust Market Yields

	2/27/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.00%	19.50%	16.75%
Effective since	2/23/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	15.50	14.50	15.50
Repurchase Agreements	15.13	14.00	13.25
U.S. Treasury Issues			
Bills			
3 months	14.77	14.83	14.55
6 months	14.93	14.70	15.10
1 year	14.45	14.20	15.40
Coupons			
2 years	13.86	13.63	14.66
4 years	13.65	13.27	13.71
7 years	13.52	13.00	13.08
10 years	13.34	12.94	12.80
Long Bond	12.86	12.57	12.29
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.15	15.15	15.00
3 months	15.40	15.15	15.65
6 months	15.60	15.40	16.05
1 year	15.50	15.15	16.00
Banker's Acceptances			
1 month	15.00	15.85	14.95
3 months	15.35	15.60	15.60
6 months	15.75	14.45	16.10
Eurodollar Deposits			
1 month	16.00	15.94	16.25
2 months	16.38	16.25	16.63
3 months	16.63	16.38	17.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	8.00	14.00
1 month	14.50	14.25	14.50
3 months	14.00	14.00	14.00
Bank Holding Companies			
1 month	14.88	15.00	14.63
Dealer Placed:			
3 months	15.20	14.63	14.88
New AA Corporate Utility Bond	15.15	15.00	14.50
Tax Exempt			
6 month Project Notes	7.10	6.80	7.00
1 year AAA Bond	7.00	7.00	NA
5 year AAA Bond	7.65	7.65	NA
20 year AAA Bond	9.35	9.40	8.50

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

Mar. 6, 1981

This week financial markets were nervous, and trading was generally slow. Part of the nervousness could be ascribed to the upward pressure on the funds rate early in the week--and that in turn probably reflected in part the distortions created by some operating problems experienced then with the Fed wire, as well as the market's realization, as of last Friday night, that banks as a whole had average reserve deficiencies of $278 million and discount window borrowings of $1.7 billion in the previous statement week--both indicative of substantially greater pressure on reserve positions. On the other hand, the 0.8% increase in the Producer Price Index reported today was less than most had expected, and that led to some paring back of rates.

Underlying the market's nervousness is a growing conviction that the Federal Reserve intends to be extremely cautious in allowing interest rates to decline. Indeed, the bottom of the Fed's acceptable range for the funds rate is probably 14%-15%--and, unlike past months, the constraint is apparently being taken seriously now.

There are several reasons why the Fed might take this stance. First, as various members of the Board have emphasized repeatedly, the Fed probably erred in the second quarter of 1980 by allowing rates to drop too quickly and does not intend to make the same mistake this time around. Supporting this view is the fact that recent forecasts of economic activity have generally underestimated the degree of strength in the economy. If the Fed's forecasts have been roughly in line with those of private forecasters--and the FOMC minutes suggest that is the case--the FOMC may logically want to err on the side of caution in easing, especially since few convincing signs of a slowdown have yet emerged (witness the small drop in the February unemployment rate).

Moreover, while it is true that M-1B is slightly below the bottom of its "adjusted" 6%-8 1/2% target range, the last several weeks have produced an upward thrust of the aggregate--not a trend, of course, but not the sort of thing that would spur the Fed to ease its policy stance. In addition, it is very possible that for technical forecasting reasons the Fed is looking for continued strength in the weekly numbers for the duration of the quarter.

Thus it boils down to a good case for waiting a while to see some more results, and the next FOMC meeting would be a good occasion for the Fed to assess its policy. Consequently, we do not expect the weekly average funds rate to move below 15%-16% until after that.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

	3/6/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	18.50%	19.00%	17.75%
Effective since	3/3/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	16.00	15.50	17.00
Repurchase Agreements	15.75	15.13	15.75
U.S. Treasury Issues			
Bills			
3 months	15.02	14.77	16.71
6 months	14.99	14.93	16.85
1 year	14.41	14.45	16.22
Coupons			
2 years	13.92	13.86	15.40
4 years	13.75	13.65	14.25
7 years	13.34	13.52	13.45
10 years	13.23	13.34	13.10
Long Bond	12.76	12.86	12.60
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.50	15.15	17.25
3 months	15.70	15.40	17.75
6 months	15.75	15.60	18.00
1 year	15.50	15.50	17.00
Banker's Acceptances			
1 month	15.45	15.00	17.25
3 months	15.65	15.35	17.80
6 months	15.60	15.75	18.50
Eurodollar Deposits			
1 month	16.38	16.00	18.25
2 months	16.50	16.38	18.75
3 months	16.63	16.63	18.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.25	15.00	17.00
1 month	15.00	14.50	17.13
3 months	14.25	14.00	15.00
Bank Holding Companies			
1 month	15.63	14.88	16.75
Dealer Placed:			
3 months	15.25	15.20	17.25
New AA Corporate Utility Bond	15.75	15.15	14.50
Tax Exempt			
6 month Project Notes	7.20	7.10	7.50
1 year AAA Bond	7.30	7.00	NA
5 year AAA Bond	8.00	7.65	NA
20 year AAA Bond	9.85	9.35	8.50

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Financial Markets

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Economic Research &
Planning Division

Friday
(Noon)

Mar. 13, 1981

Financial markets rallied in the latter part of the week as the perception spread that the Federal Reserve clearly had eased its policy stance a notch. Most likely the immediate stimulus to the change was the $1.3 billion decline in M-1B announced last Friday. That snapped a succession of weekly increases and put the aggregate about $3 billion below the bottom of its "adjusted" 6%-8 1/2% target range. Apparently the Fed concluded that the sluggish pattern of M-1B growth in recent months was unlikely to improve without an easing of reserve availability.

That a policy change actually had occurred only became clear when the rate on Federal funds began to soften on Tuesday afternoon and continued soft on Wednesday morning--without the Fed entering the market to drain reserves. The Fed promptly provided further confirmation early that afternoon by entering the market to buy Treasury bills and later on by announcing that it would execute six-day customer repurchase agreements on Thursday (a very unusual transaction). All in all, the Fed left no stone unturned in indicating to the market that reserve needs in the statement week starting Thursday would be met from the very outset. If past relationships hold, then the funds rate should work down to the 13%-14% area before long. However, the Fed definitely will not tolerate a pell-mell drop of the funds rate, so that if the market should get carried away (as occurred three weeks ago) and put the funds rate down sharply to 13% or lower, the Fed will probably resist.

The market initially did not respond to the overt Fed actions on Wednesday, reflecting, in part, a prudent attitude toward Wednesday funds trading. But in addition, some "Fed-watchers" were anticipating that the Fed would purchase Treasury coupon securities instead of bills. Consequently, when bills were purchased, at least some participants were disappointed!

No doubt they are happier now, given the sharply lower funds rate. Nevertheless, it is useful to reflect why a Fed coupon purchase was never very likely this week and should occur even less frequently in the future than in the past. The bill market is much more liquid than the coupon market, and thus is the preferred arena for the Fed's large outright purchases and sales. In addition, the Treasury in recent years has systematically striven to increase the average maturity of its debt. Since in practice the Fed almost never sells coupons, coupon purchases run counter to the Treasury's efforts to lengthen maturities. (Recall that almost all Fed earnings are turned over to the Treasury.) Moreover, the Monetary Control Act of 1980 provides for a significant scaling back of member-bank required reserves, so that in the next several years the Fed should be a net seller of securities from its portfolio. In that setting the Fed is likely to be especially cautious about adding substantial amounts of coupon securities to its portfolio. In fact, just about the only reason for expecting the Fed to purchase coupons this week was the relatively large amounts still in dealer hands—but that consideration (alas!) carries little weight with the Fed.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	3/13/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	18.00%	18.50%	18.50%
Effective since	3/10/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	14.25	16.00	17.00
Repurchase Agreements	14.00	15.75	13.00
U.S. Treasury Issues			
Bills			
3 months	13.88	15.02	16.04
6 months	13.60	14.99	16.75
1 year	13.48	14.41	15.85
Coupons			
2 years	13.45	13.92	14.70
4 years	13.30	13.75	13.38
7 years	12.94	13.34	12.70
10 years	12.87	13.23	12.42
Long Bond	12.44	12.76	12.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.15	15.50	18.00
3 months	14.25	15.70	18.25
6 months	14.35	15.75	18.50
1 year	14.50	15.50	17.50
Banker's Acceptances			
1 month	14.15	15.45	17.80
3 months	14.10	15.65	18.10
6 months	14.33	15.60	18.50
Eurodollar Deposits			
1 month	15.19	16.38	18.50
2 months	15.19	16.50	19.13
3 months	15.19	16.63	19.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	15.25	15.00
1 month	14.00	15.00	16.50
3 months	13.75	14.25	15.00
Bank Holding Companies			
1 month	14.38	15.63	16.75
Dealer Placed:			
3 months	14.25	15.25	17.00
New AA Corporate Utility Bond	14.90	15.75	14.50
Tax Exempt			
6 month Project Notes	7.05	7.20	7.25
1 year AAA Bond	7.10	7.30	NA
5 year AAA Bond	7.80	8.00	NA
20 year AAA Bond	9.65	9.85	9.00

This information represents prevailing market yields.
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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

March 20, 1981

Rates moved sharply lower on balance this week, though some increases set in toward the end. The principal stimulus to the declines was the dramatic drop in the Federal funds rate, which averaged 15.53% in the week ended March 11, 14.18% in the week ended March 18, and which thus far this statement week has been averaging a bit above 13%--as was anticipated here last week. In addition, the markets were aided by reports of declines in industrial production and housing starts--about the first palpable signs of an economic slowdown received so far. However, two underlying concerns weighed on market sentiment, especially toward the end of the week. One was the question of how far the funds rate would decline in the near future. The possibility exists that some dealers may have taken positions that would be profitable only if the rate continued to fall; such expectations are easily disappointed. The other main source of concern was the large volume of Treasury and corporate securities expected to be brought to market in the near future.

In addition, many market participants had expected that a cut in either the basic 13% discount rate or the 3% surcharge would be announced Thursday night. The absence of such a move lends credence to the notion--it is hardly much more than that at this stage--that the bottom of the Fed's acceptable range for the funds rate may be 13%. If this is the case, then the recent rally may run out of steam for want of validation by declines in the funds and discount rates. Indeed, it is conceivable that the funds rate might even be forced briefly higher--as happened about four weeks ago--in which case the adverse impact on other market rates probably would be disproportionate.

Since the end of the year, rates on both 90-day CDs and 90-day commercial paper have dropped about four to five percentage points. In contrast, the rally in Treasury bills has been limited to only about two percentage points. This disparate pattern is indicative of the market's apprehensiveness about Treasury financing needs. Similarly, despite the recent rally in the long-term sector, the Treasury's 30-year "long bond" is currently priced to yield slightly more now than at the end of the year.

Of course, a large volume of offerings is not necessarily inconsistent with a bond market rally. The May-July 1980 period--when previous records for volumes of bond issues were shattered--proves that. But an extremely congested market is also highly vulnerable to bad news. For example, beginning in the summer of 1974, short-term rates fell rapidly for several months in succession. Bond rates also moved down, despite record issuing volumes. But in the spring of 1975, monetary growth speeded up temporarily, and short-term rates rose modestly for a time. That was all it took to force bond rates sharply higher.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	3/20/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	17.50%	18.00%	19.00%
Effective since	3/17/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	13.25	14.25	17.25
Repurchase Agreements	13.00	14.00	12.50
U.S. Treasury Issues			
Bills			
3 months	12.98	13.88	16.10
6 months	12.71	13.60	16.66
1 year	12.81	13.48	16.15
Coupons			
2 years	12.87	13.45	15.05
4 years	13.00	13.30	13.69
7 years	12.89	12.94	12.93
10 years	12.75	12.87	12.71
Long Bond	12.34	12.44	12.25
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.10	14.15	17.50
3 months	13.20	14.25	18.00
6 months	13.25	14.35	18.10
1 year	13.50	14.50	17.50
Banker's Acceptances			
1 month	13.15	14.15	17.60
3 months	13.30	14.10	18.00
6 months	12.85	14.33	18.20
Eurodollar Deposits			
1 month	13.50	15.19	18.00
2 months	13.75	15.19	18.69
3 months	14.00	15.19	18.94
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	10.00	6.00
1 month	12.25	14.00	16.25
3 months	12.25	13.75	15.00
Bank Holding Companies			
1 month	12.50	14.38	16.50
Dealer Placed:			
3 months	12.00	14.25	16.88
New AA Corporate Utility Bond	14.60	14.90	14.15
Tax Exempt			
6 month Project Notes	6.40	7.05	7.20
1 year AAA Bond	6.80	7.10	NA
5 year AAA Bond	7.40	7.80	NA
20 year AAA Bond	9.00	9.65	9.10

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Financial Markets

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**Economic Research &
Planning Division**

Friday
(Noon)

March 27, 1981

Interest rates rose sharply this week as the markets reacted to the steadily tightening pattern in the Federal funds rate. After having traded a bit over 13% last Friday, the rate rose each day, averaging a bit under 15% on Wednesday and Thursday and slightly above 15% so far today. Rates on most money market instruments rose about 50-100 basis points, while long-term bonds sank several points in price.

As noted here several times in recent weeks, our view is that the Fed is doing what it said it would do some time back--i.e., pursuing a very cautious policy with regard to monetary expansion and resisting any rapid decline in interest rates. In practice, this policy periodically requires a deliberate effort to resist rate declines by providing less abundant reserves than otherwise would be called for. That appears to be what happened last Friday (March 20). Our projections indicated the need for a modest reserves injection on that day--which was not done. Moreover, Treasury deposits at the Fed were increased above the usual $3 billion target level--an action that reduces reserve availability. Consequently, there is a strong suspicion that the Fed was not comfortable with funds trading close to 13% and took measures (relatively covert but nonetheless effective) to push the rate higher. If this was the case, the effort was successful, as the funds rate for the statement week ended March 25 averaged 13.48%, and the average this week will be substantially higher.

At this point it is difficult to avoid a feeling of deja vu. The Fed similarly undersupplied reserves on Friday, February 20, with the result that late on the following Wednesday the funds rate hit 25% (this time late Wednesday funds only hit 18%). As a consequence, the funds rate moved higher on average for a couple of weeks before resuming its decline.

What seems to be happening is that the Fed's periodic defense of the lower bound of the acceptable range for the weekly average Fed funds rate creates a disproportionate reaction in the money markets for a period of time. If this interpretation is correct, then rates should remain highly volatile, prone to substantial backups, as the Fed slows their descent.

The Federal Open Market Committee meets March 31 against a background of unusually mixed economic indicators. Monetary aggregates (abstracting from M-1A) appear to be within their annual target ranges or perhaps slightly below in the case of M-1B. However, M-1B has been showing a rising trend, posting increases in five of the last six weeks. More to the point, with the economy recently showing greater strength than many had anticipated, the Fed staff may well be looking for some strengthening in money demand in the near term. However, the economy is beginning to show some signs of weakness--witness the small decline in the February index of leading indicators reported today, the second monthly drop in a row. In this setting, the Committee has ample reason to continue its cautious approach, and a downward drift in rates should continue to be marked by high volatility.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	3/27/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	17.50%	17.50%	19.50%
Effective since	3/17/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	15.38	13.25	19.50
Repurchase Agreements	14.50	13.00	13.50
U.S. Treasury Issues			
Bills			
3 months	13.50	12.98	15.25
6 months	13.65	12.71	16.33
1 year	13.48	12.81	15.89
Coupons			
2 years	13.50	12.87	14.85
4 years	13.55	13.00	13.85
7 years	13.50	12.89	12.95
10 years	13.30	12.75	12.80
Long Bond	12.90	12.34	12.40
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.00	13.10	17.25
3 months	14.15	13.20	18.15
6 months	14.15	13.25	18.45
1 year	14.50	13.50	17.25
Banker's Acceptances			
1 month	14.35	13.15	17.10
3 months	14.25	13.30	18.10
6 months	14.30	12.85	18.30
Eurodollar Deposits			
1 month	14.75	13.50	18.50
2 months	15.07	13.75	19.13
3 months	15.13	14.00	19.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.75	8.00	15.50
1 month	13.00	12.25	16.75
3 months	12.25	12.25	15.00
Bank Holding Companies			
1 month	13.75	12.50	16.50
Dealer Placed:			
3 months	11.00	12.00	17.25
New AA Corporate Utility Bond	15.50	14.60	14.25
Tax Exempt			
6 month Project Notes	6.85	6.40	8.75
1 year AAA Bond	7.00	6.80	8.00
5 year AAA Bond	7.75	7.40	8.10
20 year AAA Bond	9.50	9.00	9.10

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Financial Markets

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**Economic Research &
Planning Division**

Friday
(Noon)

April 3, 1981

Financial markets ended the week in an extremely nervous and tense condition, reflecting an abrupt reversal of the decline in the rate on Federal funds that occurred earlier this week, magnified by swollen dealer inventories. In the absence of an overt move toward ease by the Fed, the next several weeks could be very difficult for the markets. The "negative carry" to which dealers are exposed leaves rates vulnerable to increases. Moreover, the next several weeks are a period during which the Fed must inject reserves for seasonal reasons. In such a setting, banks are short of reserves, and traders in the funds market can be expected to be somewhat more aggressive than at other times. That could contribute to firmness in the funds rate.

While there is as yet no concrete indication that the FOMC made any change in its policy stance as a result of its Tuesday meeting, our expectation is that rates will continue to work downward over the next several months. However, for reasons explored here last week, the descent promises to be highly irregular and volatile.

On Thursday, it was reported that Chairman Volcker had sent a letter to Senate Banking Committee Chairman Jake Garn stating that the Fed currently is studying various alternatives to the present system of weekly release of money stock data and that public comment would be invited during the next two or three months. Alternatives specifically mentioned included delaying publication of the weekly numbers for another week, publishing only nonseasonally adjusted data, publishing data monthly, and publishing data in the form of some kind of moving average. These alternatives are being considered because movements in the weekly data are highly erratic, or "noisy." Since financial markets do react to the weekly money data, some have argued that the reactions are exaggerated and properly should be minimized.

Our view is that adoption of any of the above proposals would have detrimental effects on the financial markets. First, if the behavior of market participants truly is so irrational as alleged, it is hard to see how withholding timely information would improve matters. More fundamentally, the Fed has no responsibility to insulate any individual from the consequences of his own peculiar foibles; if his behavior really does systematically exaggerate the significance of weekly data, the market can be expected to provide the necessary discipline. To believe otherwise is to assume that no one is prepared to discount the weekly numbers appropriately for their noise content. Moreover, delay in the weekly release or adoption of a monthly format would spur (largely wasteful) private investment in money data collection and probably compound the suddenness of reaction to the actual releases. Finally, further delay in release of the nonseasonally adjusted money components would seriously impair the forecasting of bank reserves positions--a key element in the market's interpretation of Fed open market operations. For these reasons we hope and expect that the present release system--despite its imperfections--will be retained.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	4/3/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	17.00%	17.50%	20.00%
Effective since	4/1/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	15.88	15.38	20.50
Repurchase Agreements	15.50	14.50	16.25
U.S. Treasury Issues			
Bills			
3 months	13.35	13.50	15.60
6 months	13.35	13.65	15.98
1 year	13.35	13.48	15.51
Coupons			
2 years	13.50	13.50	14.44
4 years	13.54	13.55	13.20
7 years	13.44	13.50	12.57
10 years	13.29	13.30	12.47
Long Bond	12.86	12.90	12.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.05	14.00	17.50
3 months	14.05	14.15	18.00
6 months	14.00	14.15	18.30
1 year	14.00	14.50	NA
Banker's Acceptances			
1 month	14.15	14.35	17.40
3 months	13.75	14.25	18.30
6 months	13.25	14.30	18.55
Eurodollar Deposits			
1 month	14.50	14.75	19.00
2 months	14.63	15.07	19.38
3 months	14.63	15.13	19.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	13.75	16.75
1 month	12.75	13.00	17.38
3 months	12.75	12.25	15.00
Bank Holding Companies			
1 month	13.25	13.75	17.50
Dealer Placed:			
3 months	13.38	11.00	17.00
New AA Corporate Utility Bond	15.60	15.50	15.25
Tax Exempt			
6 month Project Notes	6.45	6.85	8.60
1 year AAA Bond	7.05	7.00	8.00
5 year AAA Bond	7.60	7.75	8.10
20 year AAA Bond	9.45	9.50	9.44

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Financial Markets

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Economic Research &
Planning Division

Friday
(Noon)

April 10, 1981

Interest rates rose sharply on Monday of this week and then moved in an erratic pattern as market participants attempted to assess the implications of the recently higher rate on Federal funds and the minutes of the February 2-3 meeting of the Federal Open Market Committee released last Friday night.

Without a doubt, the minutes were the most interesting that have been released in a long time. They reveal that the Board Staff and most members of the Committee foresee very sluggish economic growth, with little change in real GNP through the fourth quarter of this year, coupled with a significant rise in the unemployment rate. Moreover, all members expect continuation of a high rate of inflation this year.

That perspective makes all the more impressive the Committee's willingness to tolerate below-target growth of M-1B and M-1A "at least through March." It was noted that such sluggish growth "would generally compensate for the rapid growth during the fourth quarter of 1980." In addition, given the likely strong growth of nominal GNP so far this year, the Staff may well have been projecting a reacceleration of money growth in months ahead. In any event, in a special telephone meeting on February 24, the Committee apparently decided that the sluggish growth of M-1B was offset by these factors and by the strong growth of M-2 and left the Federal funds rate band unchanged at 15%-20%. The minutes contain no reference to any change in the band during the period up to the March 31 meeting, while most market participants had taken for granted that such a change had been made.

That was what shocked the financial markets on Monday. But more fundamentally, the whole notion of the funds rate band appears to have been altered. The domestic policy directive adopted at the meeting makes clear that the funds rate "taken over a period of time" must be inconsistent with the monetary and related reserves paths before the Manager for Domestic Operations seeks further instructions. This evidently explains why the funds rate averaged under 15% for three weeks during March, with only one instance of clear resistance from the Fed. The moral appears to be that the funds rate as an indicator of the Fed's policy stance is even less useful now than in the past. With the Fed focusing primarily on reserves paths, analysts must also.

At this stage, the near-term outlook must be highly cautious, as M-2 growth--fueled in large part by record gains in money market mutual funds shares--continues strong. Moreover, April is often a highly erratic month for money growth. In particular, market participants are awaiting with understandable trepidation the release on Friday, April 17, of the M-1B data for the week ending April 8. Since Social Security payments were made on Friday of that week, the number is expected to be very large. On the other hand, a substantial portion of the increase due to this technical distortion should wash out in subsequent weeks. Until that actually happens, however, caution is the order of the day.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	4/10/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	17.00%	17.00%	20.00%
Effective since	4/1/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	15.50	15.88	19.00
Repurchase Agreements	15.25	15.50	18.00
U.S. Treasury Issues			
Bills			
3 months	14.28	13.35	14.50
6 months	14.50	13.35	14.90
1 year	14.00	13.35	14.10
Coupons			
2 years	13.85	13.50	13.12
4 years	13.85	13.54	12.25
7 years	13.67	13.44	11.70
10 years	13.53	13.29	11.70
Long Bond	13.10	12.86	11.47
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.00	14.05	17.55
3 months	15.10	14.05	17.50
6 months	15.15	14.00	17.10
1 year	15.00	14.00	NA
Banker's Acceptances			
1 month	15.00	14.15	17.40
3 months	15.18	13.75	17.45
6 months	14.95	13.25	17.15
Eurodollar Deposits			
1 month	15.81	14.50	18.75
2 months	15.88	14.63	18.81
3 months	15.88	14.63	18.81
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.75	8.00	12.00
1 month	14.00	12.75	17.25
3 months	13.00	12.75	15.00
Bank Holding Companies			
1 month	14.75	13.25	17.75
Dealer Placed:			
3 months	14.75	13.38	16.50
New AA Corporate Utility Bond	15.55	15.60	14.40
Tax Exempt			
6 month Project Notes	6.50	6.45	7.25
1 year AAA Bond	7.20	7.05	7.00
5 year AAA Bond	8.40	7.60	7.10
20 year AAA Bond	9.70	9.45	8.00

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4/22/81 B 4750-1

Financial Markets

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**Economic Research &
Planning Division**

Friday
(Noon)

April 17, 1981

There has been considerable discussion lately about the implications of changes in Federal Reserve operating procedures--i.e., the guidelines the Domestic Desk at the Federal Reserve Bank of New York follows in implementing the Federal Open Market Committee's targets for monetary growth. It appears that the recent history of Fed operating procedures can be divided into three general phases. Under the "old" procedures reserves were supplied in order to keep the Federal funds rate close to the target rate. Detecting shifts in the Fed's target rates was a simple matter of watching the Fed's so-called intervention points.

The "new" procedures were introduced on October 6, 1979 ("the Saturday night special"). In essence, they involved supplying nonborrowed reserves along a path thought to be consistent with the monetary aggregates targets, though the short-run path could be--and often was--shifted to speed the adjustment of money growth to target. The difference between banks' required reserves and the volume of nonborrowed reserves is net borrowed reserves (discount window borrowings less excess reserves). Thus if the Fed moved to slow the provision of nonborrowed reserves, the initial result would be an increase in borrowing, together with an increase in the funds rate. The key difference between the "old" and "new" procedures was thus the faster speed of adjustment of the funds rate--a Committee vote was no longer necessary to move it! Nevertheless, the FOMC was sensitive to fears of the unstabilizing effects of a volatile funds rate and restricted the allowable variation of the rate within a band of several percentage points. However, in the latter part of 1980, the band had to be moved up frequently as the funds rate soared. Finally, toward the end of the year, the FOMC--perhaps less apprehensive now of funds rate volatility--simply granted the Desk "leeway" to allow the rate to go its merry way.

In retrospect, this probably marked the end of the "new" procedures and the genesis of the "new-new" procedures, which market participants currently are trying to understand. Now, the constraint on the Federal funds rate is more apparent than real: it must appear to be inconsistent with the reserves path "over a period of time" before the Desk requests further guidance. Hence the band really serves as a kind of trigger device for FOMC telephone conference calls.

Obviously rate-watching is largely finished as a guide to the Fed's policy stance. In principle, one could track the growth of nonborrowed reserves, but uncertainties due to seasonal adjustments, shifts between deposit types, etc., make that approach difficult (a fact not always appreciated by analysts). Though it has its faults, the best indicator--aside from detailed analysis of open market operations--is probably net borrowed reserves, since it is the discrepancy between banks' required reserves and the amount of reserves the Fed is willing to supply through open market operations. (For the record, net borrowed reserves have risen from about $600 million in the first half of March to about $800 million in the two weeks ending April 8, possibly indicating a slight tightening.)

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	4/17/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	17.00%	17.00%	19.50%
Effective since	4/1/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	15.00	15.50	18.50
Repurchase Agreements	14.75	15.25	16.00
U.S. Treasury Issues			
Bills			
3 months	14.38	14.28	14.20
6 months	14.73	14.50	13.70
1 year	14.35	14.00	13.00
Coupons			
2 years	14.12	13.85	12.40
4 years	14.05	13.85	11.90
7 years	13.91	13.67	11.26
10 years	13.77	13.53	11.33
Long Bond	13.31	13.10	11.16
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.30	15.00	16.75
3 months	15.50	15.10	16.30
6 months	15.55	15.15	17.65
1 year	15.60	15.00	NA
Banker's Acceptances			
1 month	15.10	15.00	16.60
3 months	15.00	15.18	16.55
6 months	14.40	14.95	15.40
Eurodollar Deposits			
1 month	15.88	15.81	17.69
2 months	16.13	15.88	17.63
3 months	16.44	15.88	17.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.50	14.75	12.00
1 month	14.25	14.00	15.00
3 months	14.00	13.00	13.00
Bank Holding Companies			
1 month	15.00	14.75	15.75
Dealer Placed:			
3 months	NA	14.75	15.80
New AA Corporate Utility Bond	15.65	15.55	14.25
Tax Exempt			
6 month Project Notes	7.30	6.50	6.75
1 year AAA Bond	7.40	7.20	6.50
5 year AAA Bond	8.25	8.40	6.50
20 year AAA Bond	10.25	9.70	7.30

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4/27/81 B4750-1 [illegible]

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

April 24, 1981

Interest rates changed only slightly over the past week. Despite emerging signs of an economic slowdown in data released during the period, market participants remained nervous and unconvinced, focusing instead on recent rapid money growth and on the rate on Federal funds, which traded mostly in the 15%-16% range.

Against any backdrop but that of the last several weeks, the economic data released this week would have made the fixed-income markets markedly more bullish. As it was, the slowing reported in various measures of the inflation rate had almost no market impact. Part of the reason is that, having been misled so often before by temporary improvements in the inflation rate, many investors are now extremely "gun shy," and will require further confirmation before taking on substantial positions in long-term issues. In addition, the Federal Reserve finally may have convinced the market that it means business in hitting its monetary targets, so that the recent strong money growth momentarily dwarfs other considerations.

In one respect it is rather odd that the market should have given so much attention to the funds rate this week, since virtually all participants would now agree that the funds rate has little significance as an indicator of Fed policy intentions. But the rate is highly relevant to dealers as a determinant of the financing costs of their securities inventories. Currently, almost all short-term instruments are priced to create a zero or slightly positive spread over their overnight financing costs. On the other hand, Treasury coupon securities have slightly negative spreads in the short- to intermediate-maturity range, with substantially negative spreads existing for the longer maturities. It is thus hardly surprising that the coupon sector should be weak.

However, the major factor accounting for this weakness is the near absence of retail demand in the bond market--in vivid contrast to the huge visible supplies of offerings in the corporate and Treasury sectors. This was graphically illustrated by the poor results of this week's auction of $4.25 billion two-year Treasury notes. Ordinarily, the "coverage" of the auction--i.e., the total of bids relative to the size of the offering--would be on the order of twice the offering. In this case, however, only $5.2 billion of bids were received, very little more than the offering. As a result, the average rate of 14.51% considerably exceeded market expectations, and a large portion of the new securities was taken by dealers, who will have to make payments for them on April 30. If investor demand has not improved by then, further pressure on note rates could result. In addition, the results of the two-year note auction do not augur well for the upcoming Treasury refunding in the first week of May, when substantial additional amounts of longer-term securities will be auctioned.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	4/24/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	17.50%	17.00%	19.50%
Effective since	4/20/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	14.75	15.00	15.88
Repurchase Agreements	14.50	14.75	14.50
U.S. Treasury Issues			
Bills			
3 months	14.24	14.38	12.50
6 months	14.74	14.73	12.60
1 year	14.57	14.35	11.55
Coupons			
2 years	14.40	14.12	11.50
4 years	14.14	14.05	11.34
7 years	13.90	13.91	11.11
10 years	13.71	13.77	11.03
Long Bond	13.19	13.31	11.22
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.00	15.30	14.65
3 months	15.25	15.50	14.40
6 months	15.45	15.55	14.25
1 year	15.50	15.60	NA
Banker's Acceptances			
1 month	15.00	15.10	14.30
3 months	15.20	15.00	14.35
6 months	15.45	14.40	14.25
Eurodollar Deposits			
1 month	15.55	15.88	16.13
2 months	15.60	16.13	16.31
3 months	15.65	16.44	16.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	14.50	10.00
1 month	14.50	14.25	12.00
3 months	14.00	14.00	12.00
Bank Holding Companies			
1 month	14.75	15.00	13.75
Dealer Placed:			
3 months	14.75	NA	12.00
New AA Corporate Utility Bond	16.15	15.65	14.50
Tax Exempt			
6 month Project Notes	7.40	7.30	6.75
1 year AAA Bond	7.25	7.40	6.40
5 year AAA Bond	8.20	8.25	6.50
20 year AAA Bond	10.10	10.25	7.50

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5/12/81

Financial Markets

Irving Trust

Irving Trust Company
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New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

May 1, 1981

Interest rates lurched upward this week as the conviction spread that the Federal Reserve had indeed tightened its policy stance. Arguably the severest shock centered on the bond market, where, in the face of enormous prospective supplies of new offerings, yields rose to record levels.

The question of moment during the early part of the week was whether, and to what extent, the Fed was tightening its policy stance. It seems very clear that the Fed's draining of reserves last Friday was an overt move to restrict reserve availability, no doubt in response to the very small decline in M-1B announced that night, following increases totaling $8.5 billion in the preceding two weeks. On Monday, the funds rate moved up sharply, but that evinced no Fed concern--as would be reasonable when sharply higher levels of borrowing were anticipated for late in the week.

A good part of the dramatic surge of the funds rate on Tuesday and Wednesday, however, can probably be attributed not only to the Fed tightening, but also to a major disruption to the reserves market caused by April tax payments. From a more or less normal level of around $3 billion earlier in the week, balances in Treasury accounts at the Fed soared on Tuesday and Wednesday to more than $5 billion, draining a very substantial amount of reserves from the banking system. The problem probably was that banks had insufficient securities collateral to cover a large portion of the tax receipts flowing into their Treasury tax and loan (TTL) accounts, so that they remitted the excess to the Treasury's Fed account--thus draining reserves. For its part, the Fed did everything possible to deal with the problem. Direct deposits from the Treasury to the TTL accounts were arranged on both days but were inadequate in view of the collateral shortage. The Fed also entered the market to do RPs on both days, but there again collateral in dealer hands was extremely scarce, so that probably only a modest amount of reserves was injected via that channel. The result was extreme pressure on the funds market toward the end of the statement week. Indications are that the problem was on the way to being resolved by today, which is a payment date for Social Security benefits. The Treasury call was relatively small, suggesting that the excessive Treasury balances at last might be pared back.

While there is no doubt that the Fed moved to restrict the availability of reserves to banks, the immediate outlook for interest rates in general and the funds rate in particular is less clear. To the extent that a portion of the lofty level of the funds rate reflects a temporary distortion, funds should be expected to trade down--but the process could take several days or even a few weeks, unless the Fed makes an overt move, which we consider doubtful. Moreover, even if the money stock decelerates soon, the Fed likely would not move quickly toward ease, having firmed so recently.

As a result, the securities being offered in the Treasury's three-part refunding auctions next week should set record auction yields. We continue to look for lower rates later in the year, however.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	5/1/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	18.00%	17.50%	18.50%
Effective since	4/30/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	13.00
Federal Funds	19.75	14.75	14.50
Repurchase Agreements	17.00	14.50	11.75
U.S. Treasury Issues			
Bills			
3 months	15.69	14.24	10.65
6 months	15.48	14.74	10.92
1 year	15.14	14.57	10.75
Coupons			
2 years	14.76	14.40	10.56
4 years	14.45	14.14	10.62
7 years	14.21	13.90	10.56
10 years	14.08	13.71	10.52
Long Bond	13.58	13.19	10.69
Negotiable Certificates of Deposit-Secondary Market			
1 month	16.80	15.00	12.55
3 months	16.75	15.25	12.55
6 months	16.45	15.45	12.45
1 year	16.00	15.50	11.60
Banker's Acceptances			
1 month	16.80	15.00	12.32
3 months	16.75	15.20	12.42
6 months	16.50	15.45	12.50
Eurodollar Deposits			
1 month	17.63	15.55	14.00
2 months	17.50	15.60	14.13
3 months	17.25	15.65	14.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.00	10.00	11.00
1 month	15.00	14.50	11.25
3 months	15.00	14.00	10.75
Bank Holding Companies			
1 month	16.50	14.75	12.00
Dealer Placed:			
3 months	16.00	14.75	12.00
New AA Corporate Utility Bond	16.50	16.15	13.70
Tax Exempt			
6 month Project Notes	7.80	7.40	6.25
1 year AAA Bond	7.40	7.25	6.05
5 year AAA Bond	8.45	8.20	6.10
20 year AAA Bond	10.20	10.10	7.30

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Financial Markets

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**Economic Research &
Planning Division**

Friday
(Noon)

May 8, 1981

As anticipated here last Friday, the Treasury's three refunding auctions easily set record yields, while the rate on Federal funds worked down from its distortedly high level of the week before. Nevertheless, the Federal Reserve made its intentions clear to the market on Monday by raising its discount rate to a record 14% and increasing the surcharge on loans to large frequent borrowers to 4%.

The contrast between the refunding and the auction of the 2-year notes on April 22 was not so much the yield levels--they were all very high--but the excellent bidding for the refunding issues. The Treasury received $9.6 billion in tenders for the $3 billion of 3-year notes offered, $4.5 billion tenders for the $1.75 billion of 10-year notes, and $5.0 billion tenders for the $2 billion of 30-year bonds. That was quite a turnaround from the meager $5.2 billion of tenders received for the $4.25 billion of 2-year notes. The record high yields accounted for it, together with a fairly widespread feeling among market participants that those yields might decline soon.

There are a number of reasons why such might occur. Thursday's impressive House vote on the Reagan Administration's proposed budget is one such factor. Moreover, the Federal Reserve should make an outright purchase of securities, quite possibly coupons, before long. That would be a seasonal operation, of course, but it would alleviate the inventory positions of dealers and improve the technical condition of the market somewhat.

To an extraordinary degree, however, rates in the short-term sector currently are keying off of movements in the Federal funds rate, and the immediate prospect is for increasing firmness in that rate. The Fed's execution of four-day reverse RPs on Thursday and three-day RPs today when funds were trading a bit above 18% appears to have been designed to insure that pressure on banks will continue to be severe and may even intensify. In that setting, a further upward adjustment of the prime rate is a near-term probability.

Meanwhile, though signs of economic sluggishness abound, money stock growth is strong. Much discussion recently has focused on the formidable problems of seasonal adjustment of the monetary aggregates during April, when changes in tax payment behavior can distort growth markedly. On balance, however, these technical problems do not appear to account for much if any of the recent strength of M-1B. Rather, it appears that the acceleration reflects a not unusual "catch-up" of money growth relative to income following the first quarter, when nominal GNP is estimated to have grown at a strong 14.9% rate, while M-1B rose only at a 6.6% rate, despite being lifted artificially by inflows into NOWs from savings-type accounts. If that is the case, one should expect money growth to continue strong for a while at least, with a correspondingly tight policy stance on the part of the Fed. Also, the FOMC's judgment in the February-March period to resist declines in interest rates would appear to have been qualitatively better than the advice being offered the Committee at the time by the Treasury. Small wonder that the credibility of the Fed is on the build.

William C. Melton

Note: The full text of the letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	5/8/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.00%	18.00%	17.50%
Effective since	5/4/81		
Discount Rate at Federal Reserve Bank	14.00	13.00	13.00
Federal Funds	18.00	19.75	10.63
Repurchase Agreements	17.50	17.00	8.25
U.S. Treasury Issues			
Bills			
3 months	17.38	15.69	9.22
6 months	17.01	15.48	9.56
1 year	16.39	15.14	9.89
Coupons			
2 years	15.63	14.76	9.79
4 years	15.09	14.45	9.95
7 years	14.42	14.21	10.37
10 years	14.20	14.08	10.41
Long Bond	13.75	13.58	10.44
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.80	16.80	10.25
3 months	18.85	16.75	10.25
6 months	18.20	16.45	10.20
1 year	17.20	16.00	10.20
Banker's Acceptances			
1 month	18.40	16.80	9.95
3 months	18.75	16.75	10.00
6 months	18.15	16.50	10.10
Eurodollar Deposits			
1 month	19.25	17.63	10.88
2 months	19.38	17.50	11.38
3 months	19.50	17.25	11.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.00	17.00	7.00
1 month	17.50	15.00	9.00
3 months	16.75	15.00	9.25
Bank Holding Companies			
1 month	18.50	16.50	9.38
Dealer Placed:			
3 months	18.00	16.00	9.50
New AA Corporate Utility Bond	16.35	16.50	12.00
Tax Exempt			
6 month Project Notes	7.65	7.80	5.25
1 year AAA Bond	7.80	7.40	5.40
5 year AAA Bond	8.50	8.45	5.35
20 year AAA Bond	10.00	10.20	6.10

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5/21/81

Financial Markets

Irving Trust

Irving Trust Company
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**Economic Research &
Planning Division**

Friday
(Noon)

May 15, 1981

Trading in financial markets this week was quite thin, though the generally lower than expected Federal funds rate helped some rates to post small declines. Underlying the market's nervousness was a widespread expectation that the Federal Reserve's Friday night data release would show a large increase in the M-1B aggregate for the week ended May 6, reflecting a technical distortion created by the early payment of Social Security checks in that week.

It's certainly not news that the funds rate behaves strangely at times and that the Federal Reserve these days is willing to tolerate wide variations in the level of the rate. However, it is not generally appreciated that the Fed's discount rate structure also contributes to distortions in the rate and its relationship to the amount of discount-window borrowing. The 4% surcharge over the basic 14% discount rate applies only to banks with more than $500 million in deposits and is effective only after they have borrowed during two consecutive weeks or four times during the calendar quarter. This structure makes the relationship between pressure on the funds rate and borrowing very difficult to interpret, since the "opportunity cost" for a bank seeking funds to cover a reserves shortage can range from 14% to 18%, depending on its peculiar individual circumstances.

The main reason for the Fed's introduction of the surcharge was to curb abuse of the borrowing privilege by banks, particularly in terms of the frequency of borrowing, a penalty that was needed in view of the reputed difference in the administration of the discount window in some Federal Reserve districts.

At the same time, however, the very low basic discount rate embodies the view that banks should not be forced to pay a penalty for "uncontrollable" shocks to their reserve positions. The problem with that arrangement is that it subsidizes banks that refrain from making the investments needed to manage positions more carefully.

Currently, two initiatives could be taken to improve the relationship between the funds rate and borrowing pressure. One is to restrict the surcharge to, say, 1% and to make both the basic rate and the surcharge applicable to all classes of banks. The second is to define the penalty in terms of the dollar amount a bank borrows during the most recent 13 weeks, not merely the number of times the bank borrows. The logical way to set the amount would be to make it a small fraction of a bank's required reserves for the previous three months. That would provide for most legitimate adjustment needs, while preserving the incentive for banks to manage their positions efficiently.

As it is, a good part of the recent softness in the funds rate appears to be due to substantial numbers of banks continuing to borrow at the 14% basic rate. As the quarter wears on, however, more and more banks will become subject to the full 18% rate, thus--everything else being equal--imparting more firmness to the funds rate.

William C. Melton

Note: The full text of the letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	5/15/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.50%	19.00%	16.50%
Effective since	5/11/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	13.00
Federal Funds	18.50	18.00	11.63
Repurchase Agreements	17.00	17.50	10.25
U.S. Treasury Issues			
Bills			
3 months	17.35	17.38	9.30
6 months	16.90	17.01	9.42
1 year	16.60	16.39	9.58
Coupons			
2 years	15.61	15.63	9.64
4 years	15.25	15.09	9.84
7 years	14.40	14.42	10.20
10 years	14.10	14.20	10.30
Long Bond	13.60	13.75	10.47
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.80	18.80	10.25
3 months	18.80	18.85	10.25
6 months	18.10	18.20	10.10
1 year	17.30	17.20	10.20
Banker's Acceptances			
1 month	18.75	18.40	9.80
3 months	18.75	18.75	9.95
6 months	18.15	18.15	10.10
Eurodollar Deposits			
1 month	19.00	19.25	10.38
2 months	19.50	19.38	10.69
3 months	19.63	19.50	11.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.00	18.00	9.25
1 month	17.75	17.50	9.00
3 months	17.00	16.75	8.88
Bank Holding Companies			
1 month	18.50	18.50	9.50
Dealer Placed:			
3 months	18.05	18.00	9.50
New AA Corporate Utility Bond	15.75	16.35	11.85
Tax Exempt			
6 month Project Notes	7.80	7.65	5.50
1 year AAA Bond	7.50	7.80	5.40
5 year AAA Bond	8.35	8.50	5.70
20 year AAA Bond	10.10	10.00	6.90

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Financial Markets

Irving Trust

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Economic Research &
Planning Division

Friday
(Noon)

May 22, 1981

The full implications of the Federal Reserve's recent tightening moves began to show through to the financial markets this week, as interest rates lurched sharply higher, with the Federal funds rate rising to the 20% area. The rate rise does not appear to signify a change in Fed policy as a result of the Federal Open Market Committee meeting this week. Rather, it reflects the somewhat delayed adjustment of the Federal funds rate to the higher discount and surcharge rates implemented at the beginning of this month, together with levels of net borrowed reserves that have averaged above $2 billion in recent weeks. Indeed, had not a probable Fed underforecast of reserve availability occurred in the statement week ending May 13, funds likely would have hit 20% a week ago. At the end of the week, the report of a smaller than expected increase in the consumer price index for April--4.8% at an annual rate--helped to pare back rates slightly.

It seems likely that this week's FOMC meeting largely reaffirmed the earlier policy stance with respect to provision of nonborrowed reserves to the banking system. In contrast, the minutes of the March 31 FOMC meeting, released Thursday afternoon, were crammed with interesting information and provided confirmation of many recent changes in Fed operating procedures which previously had only been surmised. Some of the highlights of the March minutes:

- No reference to M-1A was made in the directive to the System Account Manager. This simply confirms that the introduction of NOW accounts and other interest paying checkable deposits has made obsolete a narrow aggregate including only currency and traditional demand deposits. Moreover, the M-1B target is specified in terms of growth corrected for the upward bias imparted by shifts of funds from savings accounts to NOW accounts.

- Committee members appear to recognize that at least some portion of money market mutual fund shares are transaction balances. For this reason, as well as the formidable problems associated with correcting M-1B for the NOW-shift, the FOMC decided to give more weight to M-2 in assessing policy.

- Despite the problems of interpretation, the staff viewed the sluggish 1.1% rate of growth of shift-corrected M-1B during the first quarter as "extraordinary." This created a likelihood that in subsequent quarters money growth would speed up relative to growth of nominal GNP. With that in prospect, the FOMC elected to stick with its nonborrowed reserves provision targets, fully aware that the decision could well put upward pressure on interest rates.

- The minutes state more explicitly than before that under the Fed's "new-new" operating procedures (see this letter of April 17), the Federal funds rate range serves only to prompt telephone consultations; it is "not intended as a binding constraint on System operations." In fact, the telephone conference call on May 6 resulted in the 13%-18% bands then in effect being ignored, since the Committee was scheduled to meet soon anyway.

William C. Melton

Note: The full text of the letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	5/22/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50%	19.50%	14.50%
Effective since	5/22/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	13.00
Federal Funds	19.50	18.50	8.75
Repurchase Agreements	17.25	17.00	8.25
U.S. Treasury Issues			
Bills			
3 months	17.69	17.35	7.85
6 months	17.04	16.90	8.20
1 year	16.41	16.60	8.45
Coupons			
2 years	15.45	15.61	8.65
4 years	14.70	15.25	9.35
7 years	14.10	14.40	9.68
10 years	13.82	14.10	9.80
Long Bond	13.36	13.60	10.08
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.50	18.80	8.45
3 months	18.55	18.80	8.50
6 months	17.50	18.10	8.40
1 year	17.00	17.30	9.00
Banker's Acceptances			
1 month	18.60	18.75	8.10
3 months	18.60	18.75	8.15
6 months	17.70	18.15	8.35
Eurodollar Deposits			
1 month	19.25	19.00	8.94
2 months	19.25	19.50	9.25
3 months	19.31	19.63	9.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.00	18.00	4.00
1 month	17.75	17.75	8.00
3 months	17.00	17.00	8.00
Bank Holding Companies			
1 month	18.50	18.50	8.25
Dealer Placed:			
3 months	19.00	18.05	8.25
New AA Corporate Utility Bond	16.00	15.75	11.50
Tax Exempt			
6 month Project Notes	7.50	7.80	4.90
1 year AAA Bond	7.50	7.50	5.00
5 year AAA Bond	8.30	8.35	5.20
20 year AAA Bond	10.10	10.10	6.75

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6/4/81

Financial Markets

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**Economic Research &
Planning Division**

Friday
(Noon)

May 29, 1981

Financial markets rallied impressively this week with rates all across the maturity spectrum posting sharp declines. Two key factors accounted for the change of sentiment: the recent slowing of a number of measures of price inflation and--more importantly--the sharply lower level of the Federal funds rate this week.

Yet the drop in the funds rate was scarcely unambiguous. On the one hand, the softening of the rate followed closely on the heels of the May 18 meeting of the Federal Open Market Committee, naturally fueling speculation that it reflected an overt move toward ease by the Fed. While that is a possiblity, it must be recalled that the Committee met against a background of very strong first-quarter GNP growth, coupled with a likely forecast by the staff that the relatively sluggish money growth during the first quarter would be offset by an acceleration during the current quarter. Moreover, we know from the minutes of the March 31 meeting that more weight is being given to growth of M-2--and that aggregate has been exceedingly strong recently.

A more plausible explanation for the recent softness is the Fed's severe underestimate of reserve availability in the banking system, most likely due to an unpredictable upsurge of Federal Reserve float during and following the Memorial Day weekend. This view is consistent with the softening of the funds rate that began last Friday and continued after the weekend, as well as the timing of the Fed's actions to drain reserves on Tuesday and Wednesday. Thursday's four-day reverse RP (which drains reserves) also seems to have been an aggressive move to arrest the decline of the funds rate in the current statement week, and the three-day reverse RP done today--when the funds rate had already moved up to 17 5/8% after opening at 17%--confirms the point.

Thus the rally of the last several days may be exposed to the loss of its main prop--the declining funds rate. Recall as well that the "effective" discount rate apparently has yet to reach 18%. With the basic discount rate at 14%, and the surcharge for large, frequent borrowers at 4%, the large banks have almost certainly been using up the four weekly "tickets" allotted to each of them to borrow during the calendar quarter at the cheap rate. That means that in coming weeks, more banks will be facing an 18% charge rather than 14%--a prospect with sinister implications for the ability of the market to trade Federal funds at levels around 17 1/2% as has occurred in the last few days. The prospects for a lower funds rate would naturally improve if hard evidence were to emerge of a major softening in the economy or--more critically--a continued slowdown of money growth, but thus far neither seems very likely near term.

William C. Melton

Note: The full text of the letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	5/29/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50%	20.50%	14.00%
Effective since	5/22/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	12.00
Federal Funds	17.50	19.50	11.00
Repurchase Agreements	16.00	17.25	8.25
U.S. Treasury Issues			
Bills			
3 months	16.11	17.69	8.20
6 months	15.61	17.04	8.55
1 year	15.16	16.41	8.90
Coupons			
2 years	14.68	15.45	9.15
4 years	14.25	14.70	9.70
7 years	13.78	14.10	9.95
10 years	13.54	13.82	10.20
Long Bond	13.13	13.36	10.30
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.10	18.50	8.65
3 months	17.20	18.55	8.75
6 months	16.25	17.50	9.05
1 year	15.75	17.00	9.00
Banker's Acceptances			
1 month	17.25	18.60	8.60
3 months	16.95	18.60	8.70
6 months	16.35	17.70	9.10
Eurodollar Deposits			
1 month	18.00	19.25	9.50
2 months	18.00	19.25	9.75
3 months	18.00	19.31	9.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	16.50	18.00	9.00
1 month	16.25	17.75	8.00
3 months	15.75	17.00	7.75
Bank Holding Companies			
1 month	16.50	18.50	8.38
Dealer Placed:			
3 months	16.75	19.00	8.38
New AA Corporate Utility Bond	16.25	16.00	12.00
Tax Exempt			
6 month Project Notes	7.35	7.50	5.05
1 year AAA Bond	7.75	7.50	5.20
5 year AAA Bond	8.45	8.30	5.55
20 year AAA Bond	9.80	10.10	6.75

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

June 5, 1981

Throughout the week, as the rate on Federal funds moved relentlessly toward the 20% area, financial markets struggled to extend (or at least to preserve) the gains of the last two weeks' rally. The market was supported by a variety of news items pointing to a slowing of the inflation rate and increased economic sluggishness--especially today's reports of a 4.8% increase in the Producer Price Index and a 0.3% rise in the unemployment rate, to 7.6%, in May. Taking some of the glow off the reports, however, were fairly widespread expectations of sizable increase in data on the monetary aggregates to be reported in coming weeks.

A comparison of the costs incurred by dealers financing their securities positions, which fortunately are considered to be relatively light at this time, vividly illustrates the pressures on the markets. Last Friday, Treasury securities could be financed under a repurchase agreement at about a 16% rate; today, the rate was about 20%. A week ago, three-month Treasury bills were yielding a bit over 16%, allowing a dealer to position the security with a small positive "carry," thus creating a small profit. Today, however, despite an increase in the yield on bills, the carry is massively negative--about -3%. Due to the sharply inverted yield curve, the situation is even more extreme in the long-term sector. The Treasury's 30-year long bond has been yielding a bit over 13% recently, producing a -3% carry a week ago, against a huge -7% today. Small wonder that dealers were nervous: It costs lots of money now to bet on lower inflation rates later. As indicated here last week, the rally near term must be regarded as vulnerable.

This week's operations by the Federal Reserve to drain reserves were largely of a technical nature. But they did make clear that, contrary to some expectations, the Fed had not materially eased its policy stance in reaction to the decelerating pattern of M-1B in the last several weeks. To understand why, recall that the Fed is giving more weight to M-2 these days, implying that improvement in M-1B must be discounted somewhat until confirmed by improvement in M-2. Moreover, for essentially technical reasons, the Fed is probably projecting a resurgence of money growth during this quarter, following the unusually sluggish growth in the first quarter of the year.

The rise of the funds rate appears to have been produced, not by any overt Fed tightening move, but rather by a movement of the funds rate to a more normal relation to the discount rate, which is probably approaching an effective 18% now, given the amount of net borrowed reserves that has existed in recent weeks.

William C. Melton

Note: The full text of the letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	6/5/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.50%	13.00%
Effective since	6/2/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	12.00
Federal Funds	20.25	17.50	10.50
Repurchase Agreements	20.25	16.00	10.25
U.S. Treasury Issues			
Bills			
3 months	16.75	16.11	7.50
6 months	16.25	15.61	7.98
1 year	15.40	15.16	8.29
Coupons			
2 years	14.75	14.68	8.85
4 years	14.35	14.25	9.30
7 years	13.80	13.78	9.70
10 years	13.55	13.54	9.88
Long Bond	13.10	13.13	10.00
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.50	17.10	8.80
3 months	17.85	17.20	9.75
6 months	16.80	16.25	8.45
1 year	16.00	15.75	8.50
Banker's Acceptances			
1 month	19.30	17.25	8.70
3 months	17.75	16.95	8.50
6 months	16.70	16.35	8.35
Eurodollar Deposits			
1 month	19.25	18.00	9.69
2 months	18.75	18.00	9.75
3 months	18.63	18.00	9.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.25	16.50	8.00
1 month	17.75	16.25	8.00
3 months	16.00	15.75	7.75
Bank Holding Companies			
1 month	18.50	16.50	8.63
Dealer Placed:			
3 months	18.50	16.75	8.50
New AA Corporate Utility Bond	15.75	16.25	11.65
Tax Exempt			
6 month Project Notes	7.10	7.35	4.60
1 year AAA Bond	7.50	7.75	5.10
5 year AAA Bond	8.25	8.45	5.30
20 year AAA Bond	9.90	9.80	6.60

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6/22/81

Financial Markets

Irving Trust

Irving Trust Company
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New York, NY 10015

Economic Research &
Planning Division

B 4750-1

Friday
(Noon)

June 12, 1981

This week, financial markets were essentially a dealer phenomenon, with little participation from retail investors. The rally of recent weeks was fed this week by the continued sluggish behavior of money stock data as well as the sharply lower drift of the rate on Federal funds after the weekend. That prop began to falter, however, after the Federal Reserve's repeated efforts to drain reserves resulted in the funds rate shooting up well above 20% Wednesday afternoon and subsequently trading in the 18%-19% area. In that setting, even Thursday's report on May retail sales data--pointing to continued sluggishness in that sector--could not prompt a meaningful decline in rates.

Since the postweekend softness in the funds rate probably reflected a technical problem affecting reserve availability--as evidenced by the Fed's repeated draining of reserves--there is at this time no tangible evidence of any overt move toward ease by the Fed. All that seems to have happened in the last several weeks is a slight easing of pressure on bank reserves positions due to sluggish M-1B growth during the period. That is what one would expect under the Fed's reserves-oriented operating procedures.

Probably any overt attempt by the Fed to speed up reserves provision will have to wait at least until the FOMC meeting scheduled for July 7. In the first place, it appears highly likely that the Committee staff is still projecting a resurgence of money growth following the abnormally sluggish behavior of money demand in the first quarter of this year. In addition, we know from the FOMC minutes that more weight than previously is being given to M-2--and that aggregate remains near the top of its target range, though the recent weak performance of money market mutual fund shares should improve the situation temporarily. Finally, the FOMC earlier this year expressed a preference for money growth in the lower part of the target ranges as a counter for the above-target growth noted late last year. Another possible motive for the same cautious approach is that the stimulative impact of whatever tax cut Congress passes will likely begin sometime in the second half of the year, raising the question of whether the Fed might encounter a late-year surge in money demand akin to last year's. There is no disputing the political embarrassment that would follow the Fed's missing its money targets (however slightly) for a second year in a row due to a late surge.

If these considerations--or others like them--impel the Fed to resist any overt move toward ease until July, there could be some near-term trouble for the financial markets. As noted here last week, the rally has proceeded so far now that dealers are faced with truly massive costs of financing their positions. They can live with that for a while, but unless they receive support soon from retail investors and the Fed funds rate, some increases of rates will occur.

William C. Melton

Note: The full text of the letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	6/12/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.00%	12.00%
Effective since	6/2/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	18.25	20.25	8.50
Repurchase Agreements	16.50	20.25	8.00
U.S. Treasury Issues			
Bills			
3 months	15.30	16.75	6.25
6 months	15.19	16.25	6.90
1 year	14.68	15.40	7.40
Coupons			
2 years	14.43	14.75	8.20
4 years	14.00	14.35	8.55
7 years	13.55	13.80	8.75
10 years	13.33	13.55	9.40
Long Bond	12.82	13.10	9.48
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.40	18.50	8.25
3 months	16.55	17.85	8.25
6 months	15.75	16.80	8.10
1 year	15.25	16.00	8.00
Banker's Acceptances			
1 month	17.50	19.30	8.25
3 months	16.55	17.75	7.88
6 months	15.75	16.70	8.15
Eurodollar Deposits			
1 month	18.13	19.25	8.69
2 months	17.88	18.75	8.75
3 months	17.63	18.63	8.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.50	18.25	8.13
1 month	17.00	17.75	7.75
3 months	16.00	16.00	7.50
Bank Holding Companies			
1 month	17.50	18.50	7.50
Dealer Placed:			
3 months	16.50	18.50	7.75
New AA Corporate Utility Bond	15.75	15.75	11.00
Tax Exempt			
6 month Project Notes	7.00	7.10	3.70
1 year AAA Bond	7.20	7.50	4.60
5 year AAA Bond	8.50	8.25	5.10
20 year AAA Bond	10.10	9.90	6.50

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7/5/81

Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

June 26, 1981

The market for bank reserves in the statement week ended last Wednesday can only be described as sloppy, as several corrections to Federal Reserve projections of reserves availability probably required the Fed to arrange "defensive" open market operations. The most vivid instance was the Tuesday reserves-draining operation following Monday's reserves injection. Against the background of a highly volatile Federal funds rate, the financial markets remained nervous, and rates on balance posted only small changes.

Weighing on market sentiment is the spreading recognition that the Fed has not made any overt move to ease the pressure on bank reserves. Such easing as has occurred has been due almost totally to the relatively modest impact on required reserves of the recently sluggish growth of M-1B. That is also true of the current statement week. Though some observers interpreted the Fed's execution of four-day repurchase agreements on Thursday as an aggressive move toward ease, it appears more likely that the intent was to provide the needed reserves at the outset of the statement week, so as to avoid a repetition of last week, when the funds rate was high before the weekend and soft afterwards. Similarly, the three-day RPs today were probably necessary due in part to withdrawals from the four-day RPs.

There is a fair probability that an overt move to make reserves provision more ample will be made at the Federal Open Market Committee's meeting on July 7. Unless the outlook alters radically during the next two weeks, the FOMC will confront a situation in which M-1B is growing at or below its target, while staff projections for future growth of GNP and the money supply will probably have been revised downward. However, a major uncertainty clouding this picture will be the impact of the new spending and tax-cut package in the latter part of the year. Unquestionably, the FOMC ardently wishes to avoid a repetition of the late 1980 surge in money growth, and the fiscal changes currently being enacted by the Congress will have to be carefully weighed with respect to their prospect of causing this to happen. In addition, with the FOMC currently giving more weight to M-2, more pressure on reserves positions (and interest rates) is warranted than would otherwise be the case, since the non-M-1B components of M-2 have zero or minimal reserve requirements and in many cases pay market interest rates.

Interestingly, on Thursday Chairman Volcker floated a proposal that might ease interpretation of M-1B and M-2 by putting reserve requirements on checkable money market mutual fund share balances. The idea would be to encourage individuals to segregate their transaction balances from their savings-oriented balances, thus facilitating measurement of the two. In addition, the proposal would meet some of the complaints made by banking and thrift industry groups, for which transaction balances are subject to reserve requirements. However, while the Administration remains opposed, the proposal has minimal prospects of passage, and so may have been largely a political gesture. Nevertheless, it does call attention to a real problem of interpreting the monetary aggregates.

William C. Melton

Note: The full text of the letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	6/26/81 Noon	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.00%	12.00
Effective since	6/2/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	18.50	21.50	9.38
Repurchase Agreements	15.00	19.50	8.00
U.S. Treasury Issues			
Bills			
3 months	14.75	16.17	7.75
6 months	15.10	15.93	8.08
1 year	14.70	15.38	8.35
Coupons			
2 years	14.46	14.83	8.90
4 years	14.10	14.35	9.22
7 years	13.88	13.80	9.40
10 years	13.64	13.58	9.82
Long Bond	13.09	13.02	9.93
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.45	18.50	8.75
3 months	16.85	17.85	8.75
6 months	16.20	17.00	8.80
1 year	15.75	16.40	NA
Banker's Acceptances			
1 month	17.25	18.65	8.75
3 months	16.85	17.90	8.70
6 months	16.40	17.03	8.80
Eurodollar Deposits			
1 month	18.38	19.00	9.19
2 months	18.00	18.63	9.25
3 months	18.00	18.63	9.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.00	18.00	8.25
1 month	16.50	17.00	8.00
3 months	15.00	15.00	7.75
Bank Holding Companies			
1 month	16.75	18.00	8.00
Dealer Placed:			
3 months	16.50	17.13	8.25
New AA Corporate Utility Bond	15.75	15.75	11.50
Tax Exempt			
6 month Project Notes	7.50	7.40	4.50
1 year AAA Bond	8.00	8.00	4.60
5 year AAA Bond	8.75	8.50	5.15
20 year AAA Bond	10.15	10.10	6.90

This information represents prevailing market yields.

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Irving Trust

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Economic Research &
Planning Division

Friday
(Noon)

July 3, 1981

This week, interest rates rose sharply in response to pressure on dealer inventories, slack buying of new issues by retail investors, and a rising Federal funds rate. Also weighing on market sentiment was the view enunciated by Treasury Secretary Regan on Tuesday that the Federal Reserve might not alter its policy stance even after its meeting on July 7.

Ironically, data on bank reserves positions released Thursday night strongly suggest that the Fed already eased its policy stance during the statement week ended last Wednesday, July 1. The most likely precipitating factor was the continuing sluggish money growth--confirmed that week by the new benchmark revisions to the money stock data.

The key evidence is the sharp drop of net borrowed reserves to $1.25 billion that statement week, well down from the $1.88 billion average in the prior eight statement weeks. While it is conceivable that such a decline could be the product of a miss in the Fed's projections of operating factors, that seems unlikely, especially since it was the lowest level since mid-April.

If the Fed really is putting less pressure on bank reserves positions, why did the funds rate soar during the last several days? The best guess is that a host of technical problems distorted the funds market. It is well known that many banks engage in "window dressing" to make their balance sheets appear more liquid on their June 30 end of quarter statements of condition. Their increased demand for excess reserves always puts pressure on the funds market and explains why the market was firm on Tuesday. But the pressure on the funds rate began to build on Wednesday. That may have reflected a poor distribution of reserves continuing from Tuesday, amplified by the slightly greater than normal share of Wednesday borrowing from the Fed discount window. Moreover, a number of banks apparently discovered that day that although Wednesday was the first day of the third calendar quarter, the Fed was treating it as part of the second quarter in determining the applicability of the 4% surcharge over the basic 14% discount rate. That would naturally impart more aggressiveness to banks' bidding for funds. Also, in advance of the holiday weekend, banks were probably more aggressive than normal in bidding for funds. After the weekend, however, these pressures should abate; and during the next week or two, the funds rate should trade down under 18%.

If there is any moral whatever to be gleaned from all this, it is that net borrowed reserves is far superior to the funds rate as an indicator of the Fed's policy stance.

William C. Melton

Note: The full text of the letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

	7/3/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.00%	12.00%
Effective since	6/2/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	19.75	18.50	9.38
Repurchase Agreements	19.00	15.00	8.25
U.S. Treasury Issues*			
Bills			
3 months	15.02	14.75	7.96
6 months	15.28	15.10	7.89
1 year	14.91	14.70	7.89
Coupons			
2 years	14.73	14.46	8.21
4 years	14.38	14.10	9.32
7 years	14.07	13.88	9.68
10 years	13.86	13.64	10.10
Long Bond	13.31	13.09	10.00
Negotiable Certificates of Deposit-Secondary Market *			
1 month	17.70	17.45	8.50
3 months	17.30	16.85	8.60
6 months	17.00	16.20	8.60
1 year	16.00	15.75	9.00
Banker's Acceptances*			
1 month	17.75	17.25	8.80
3 months	17.30	16.85	8.75
6 months	17.00	16.40	8.60
Eurodollar Deposits			
1 month	18.63	18.38	9.25
2 months	18.25	18.00	9.31
3 months	18.25	18.00	9.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.50	17.00	6.00
1 month	17.00	16.50	8.25
3 months	15.00	15.00	8.00
Bank Holding Companies			
1 month	17.25	16.75	8.50
Dealer Placed:			
3 months	NA	16.50	8.38
New AA Corporate Utility Bond	15.50	15.75	11.75
Tax Exempt			
6 month Project Notes	7.30	7.50	4.35
1 year AAA Bond	7.55	8.00	5.00
5 year AAA Bond	8.70	8.75	5.50
20 year AAA Bond	10.10	10.15	7.10

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*Close of Market 7/2/81

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27/81

Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

July 10, 1981

This week was very trying for financial markets, as continuing uncertainties in the near-term outlook forced interest rates sharply higher. Most disconcerting to the markets was the fact that the interest rate on Federal funds remained stuck in the 19%-20% range.

Nevertheless, signs continue to point toward an easing of the Fed's policy stance, and by Friday the markets were beginning to come around to that view. Though some participants had expected the Fed's outright purchase of securities on Wednesday, correctly surmising that the action would cover part of a seasonal reserve need in coming weeks, the operation was by no means necessary at that time. Had the Fed wanted to keep up pressure on bank reserves positions—and thus also on the Fed funds rate--the action could easily have been postponed for a few weeks. The same desire to assure availability of reserves seemed to characterize the Fed's execution of one-day and four-day repurchase agreements on Thursday. The same weekly average reserve injection could have been achieved by doing the job on Friday, but if the Fed intended to reduce pressure on banks to borrow from the discount window on Friday night, then injecting reserves at the earliest possible moment in the new statement week made excellent sense.

Contributing to the tension in the reserves market was the prospect of distortions that might be caused by the transfer of $2.3 billion of Iranian deposits from U.S. banks. Though the transfer should not affect overall reserves availability, the efforts of banks paying funds to cover their positions undoubtedly contributed to some pressure on the funds market. Of course, it is useful to keep perspective on the scale of the problem. Last January, when the first transfer of Iranian assets took place, the potential impact on bank reserves positions was much greater, but the Fed handled the problem adeptly, and there was little doubt that distortions would be minimized this time as well.

In a nutshell, evidence continues to accumulate pointing to near-term declines in interest rates well beyond the modest corrections posted so far in today's trading. Nevertheless, there are some probable constraints on the magnitude of the coming rally. Most important, for reasons discussed here previously, the Fed is likely to persist in its cautious approach to control of money growth. In addition, the next several weeks include a period of seasonal reserve losses by banks; though the losses will be made up by the Fed, the prospect does not augur well for a precipitous drop of the funds rate. Moreover, in the long-term sector, investor interest has been very slack for the most part, while the backlog of corporate bond issues waiting to come to market is of historically extraordinary proportions. While the prospect of massive supplies of new bond issues certainly need not preclude a rally in that sector, it does suggest that rate declines will be tempered by the difficulties faced by underwriters dealing with such congestion.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

	(Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50%	20.00%	11.50%
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	19.25	19.75	9.13
Repurchase Agreements	18.75	19.00	8.25
U.S. Treasury Issues			
Bills			
3 months	15.64	15.02	8.25
6 months	15.78	15.28	8.50
1 year	15.35	14.91	8.60
Coupons			
2 years	14.94	14.73	9.00
4 years	14.55	14.38	9.35
7 years	14.01	14.07	9.60
10 years	13.94	13.86	10.20
Long Bond	13.26	13.31	10.25
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.50	17.70	8.65
3 months	17.85	17.30	8.75
6 months	17.35	17.00	8.85
1 year	16.50	16.00	9.50
Banker's Acceptances			
1 month	18.50	17.75	8.50
3 months	17.80	17.30	8.70
6 months	17.30	17.00	8.80
Eurodollar Deposits			
1 month	19.19	18.63	9.13
2 months	18.75	18.25	9.25
3 months	18.56	18.25	9.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.00	18.50	6.00
1 month	17.75	17.00	8.38
3 months	16.75	15.00	8.38
Bank Holding Companies			
1 month	18.00	17.25	8.50
Dealer Placed:			
3 months	NA	NA	8.13
New AA Corporate Utility Bond	15.88	15.50	12.00
Tax Exempt			
6 month Project Notes	7.60	7.30	4.80
1 year AAA Bond	7.75	7.55	5.25
5 year AAA Bond	8.40	8.70	5.45
20 year AAA Bond	10.20	10.10	7.10

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

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7/27/81

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

July 17, 1981

Financial markets had an extremely nervous tone this week as participants waited for a clear confirmation--in the form of a lower Federal funds rate--that the Federal Reserve has eased pressure on bank reserves positions. Also weighing on market sentiment were concerns that the money stock data to be reported Friday night for the week ended July 8 might show a large increase in M-1B.

While data on bank reserves positions make clear that the Fed has eased its policy stance, the crucial question for market participants is: how much? Currently, it appears that the reduction in pressure on bank reserves positions should suffice to put the funds rate somewhat under 18%--a rate that would still be rather high by historical standards.

At this juncture, the Fed faces several problems with regard to its monetary aggregates targets. The most glaringly evident is the inconsistency of the M-1B and M-2 targets--M-1B (shift-adjusted or otherwise) is under the bottom of its target range, while M-2 is at the top of its range. In principle, the inconsistency is easily corrected by adjusting one or both of the targets, but political realities make that course difficult. In addition, the Fed is concerned about the prospect of a speedup in economic activity late in the year, causing the targets to be missed again this year as they were (technically) last year. A highly restrictive policy now buys insurance against such an eventuality later, and the best bet is that the Fed will gradually continue its easing moves between now and year-end as the likelihood of a late surge in money growth recedes.

According to one report, the FOMC decided at its July 8 meeting to leave the annual targets for M-1B and M-2 unchanged but to aim for the bottom edge of the M-1B target, rather than the midpoint, as is customary. Our view is that this approach--if actually confirmed by Chairman Volcker's testimony to Congress next Tuesday--would represent only a pragmatic attempt to resolve the target inconsistency problem while minimizing political controversy. Moreover, since M-1B remains below its target range, even the new approach would leave room for future moves toward ease by the Fed.

The real problem for market participants, however, is that current rates on many money market instruments already have discounted a near-term decline of the Federal funds rate. For example, 90-day Treasury bills currently yield about 15%, while the RP rate is slightly over 17%. That relationship suggests that at least some market participants are expecting that within the next three months the RP rate will decline to well under 15%, which would require a drop in the funds rate on the order of several points. Though the funds rate has indeed been declining lately and appears likely to continue to do so, the slowness of the declines may well prompt some near-term back-ups of rates on other money market instruments.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust **Market Yields**

	7/17/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50%	20.50%	11.50%
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	17.75	19.25	8.75
Repurchase Agreements	17.25	18.75	8.13
U.S. Treasury Issues			
Bills			
3 months	14.85	15.64	8.20
6 months	15.36	15.78	8.40
1 year	15.59	15.35	8.50
Coupons			
2 years	14.95	14.94	8.95
4 years	14.59	14.55	9.22
7 years	14.24	14.01	9.65
10 years	14.03	13.94	10.12
Long Bond	13.35	13.26	10.12
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.65	18.50	8.65
3 months	17.45	17.85	8.65
6 months	17.15	17.35	8.70
1 year	16.50	16.50	9.00
Banker's Acceptances			
1 month	17.50	18.50	8.60
3 months	17.60	17.80	8.55
6 months	17.40	17.30	8.65
Eurodollar Deposits			
1 month	18.44	19.19	9.00
2 months	18.38	18.75	9.13
3 months	18.44	18.56	9.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.38	17.00	6.00
1 month	17.00	17.75	8.38
3 months	16.75	16.75	8.38
Bank Holding Companies			
1 month	17.25	18.00	8.50
Dealer Placed:			
3 months	17.00	NA	8.38
New AA Corporate Utility Bond	16.35	15.88	11.75
Tax Exempt			
6 month Project Notes	7.75	7.60	4.70
1 year AAA Bond	7.80	7.75	5.00
5 year AAA Bond	8.70	8.40	5.30
20 year AAA Bond	10.20	10.20	7.40

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Financial Markets

Irving Trust

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One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

July 24, 1981

Financial markets ran the gamut of emotions this week, from utter despair early in the week to emerging optimism later on. The $6.9 billion increase in the money stock reported last Friday plus the soaring Federal funds rate after the weekend were critical factors, as was the highly pessimistic interpretation given Chairman Volcker's testimony at the monetary policy oversight hearings this week. In that setting, not even the Wednesday GNP report—which pointed to considerably more economic sluggishness than had generally been realized--could help much.

Volcker's testimony was much more revealing than most newspaper accounts suggested. He confirmed that the FOMC had decided for the duration of the year to aim for the bottom of the 3 1/2%-6% target range for shift-adjusted M-1B as well as the top of the M-2 range. As usual, the M-1B range for next year was moved down slightly from this year's range. As was widely expected, no target will be set next year for M-1A, which has been rendered obsolete by the expansion of NOW accounts.

As noted here last week, the M-1B and M-2 targets were clearly inconsistent, so that something had to be done. Thus the implicit change in this year's targets was hardly the policy "tightening" reported in a number of press accounts--indeed, the Chairman went to some lengths to clarify its technical nature. Nor was next year's lower range for M-1B (soon to be known simply as M-1).

These actions do confirm that the Fed is pursuing a more restrictive policy than many had thought. That lessens the chance for sharp declines in rates by year-end, though it certainly does not rule out a gradual downward trend.

Naturally, much depends on the pace of economic activity in coming quarters. The FOMC expects very sluggish growth in real GNP to carry into 1982. The report noted pointedly that the Administration's more optimistic scenario "would seem to depend on a substantial rebound in productivity in the wake of tax and regulatory changes now in prospect, and, relative to historical experience, on a considerable willingness by the public to economize on cash balances in response to continuing changes in financial technology and other factors." Translation: The FOMC thinks its monetary targets are inconsistent with the pickup in real growth envisioned by the Administration.

Finally, Volcker emphasized the need to produce palpable improvement on the inflation front and/or economic slack in advance of labor negotiations beginning early next year, which he fears could set a pattern of excessive wage increases for some time to come. In the FOMC's view the next several quarters are thus especially crucial in the inflation fight.

In sum, it was a thoughtful report, well worth reading.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	7/24/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50%	20.50%	11.00%
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	18.50	17.75	8.63
Repurchase Agreements	17.63	17.25	8.50
U.S. Treasury Issues			
Bills			
3 months	15.97	14.85	8.25
6 months	16.38	15.36	8.44
1 year	16.04	15.59	8.60
Coupons			
2 years	15.61	14.95	9.03
4 years	15.12	14.59	9.42
7 years	14.64	14.24	10.15
10 years	14.40	14.03	10.20
Long Bond	13.65	13.35	10.24
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.30	17.65	8.50
3 months	18.20	17.45	8.55
6 months	18.00	17.15	8.70
1 year	17.40	16.50	9.00
Banker's Acceptances			
1 month	18.60	17.50	8.50
3 months	18.40	17.60	8.50
6 months	18.30	17.40	8.45
Eurodollar Deposits			
1 month	18.88	18.44	8.88
2 months	18.75	18.38	8.94
3 months	18.88	18.44	9.06
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.25	17.38	7.00
1 month	17.50	17.00	8.38
3 months	16.75	16.75	8.38
Bank Holding Companies			
1 month	17.75	17.25	8.38
Dealer Placed:			
3 months	17.75	17.00	8.38
New AA Corporate Utility Bond	16.75	16.35	11.90
Tax Exempt			
6 month Project Notes	7.80	7.75	4.55
1 year AAA Bond	8.00	7.80	5.10
5 year AAA Bond	8.45	8.70	5.40
20 year AAA Bond	10.40	10.20	7.20

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

July 31, 1981

Financial markets this week were poised on the threshold of a realignment of rate levels. The week saw the rate on Federal funds (belatedly) move down out of the 19%-20% range and solidly into the 17%-18% area. Yet many market participants--having been deceived again and again in weeks past--were understandably reluctant to believe that at last the funds rate would begin to reflect the Fed's reduced pressure on bank reserves positions. Nevertheless, by the end of the week, one could detect a spreading conviction that the peak in the funds rate was behind us.

Despite that improvement, however, the long-term bond market lost ground over the week, reflecting the near absence of retail buying interest, as well as the palpable threat to government securities dealers represented by next week's Treasury refunding, in which $4.25 billion 3 1/4-year notes will be offered on Tuesday, $2.25 billion 9 3/4-year notes on Wednesday, and $2.0 billion 29 3/4-year bonds on Thursday. The $8.5 billion total was on the high side of market expectations, as was the Treasury's $33 billion estimate of its fourth quarter financing needs, so the Wednesday afternoon announcement was destined to be a disappointment. Immediately afterwards, the Treasury's long bond dropped about a point in price.

Against that background, the refunding should perform better than expected, since the market already appears to have discounted every conceivable disappointment. The high yields expected in the auctions should prove very attractive to investors, and if so, then the market's tone should improve. A continued 17%-18% funds rate should offer further support.

The pattern of recent Federal Reserve open market operations--i.e., 4-day RPs on Thursday in the last four statement weeks--suggests strongly that the System is anxious to damp upward pressure on the funds rate before the weekend, and thus to minimize problems in achieving the desired average level of discount window borrowing during the week. That suggests that pressure on bank reserves positions may well be in process of being reduced still further, with a lower funds rate the likely implication. Nevertheless, we expect that additional rate declines will be only gradual.

Warning: Today the air traffic controllers announced their intention to strike starting Monday, August 3. Should a strike actually take place, Federal Reserve float will increase, injecting reserves into the banking system. That will necessitate substantial reserves draining operations by the Fed. The operations will be technical and should not be interpreted as a firming of the Fed's policy stance.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

	7/31/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50	20.50%	11.00%
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	10.00
Federal Funds	17.38	18.50	10.63
Repurchase Agreements	16.25	17.63	9.50
U.S. Treasury Issues			
Bills			
3 months	15.50	15.97	8.88
6 months	16.13	16.38	9.17
1 year	16.00	16.04	9.28
Coupons			
2 years	15.75	15.61	9.61
4 years	15.38	15.12	9.90
7 years	14.88	14.64	10.00
10 years	14.63	14.40	10.65
Long Bond	13.88	13.65	10.62
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.70	18.30	9.90
3 months	17.70	18.20	9.90
6 months	17.70	18.00	10.00
1 year	16.85	17.40	10.25
Banker's Acceptances			
1 month	17.60	18.60	9.55
3 months	17.75	18.40	9.55
6 months	17.90	18.30	9.55
Eurodollar Deposits			
1 month	18.50	18.88	10.38
2 months	18.63	18.75	10.44
3 months	18.63	18.88	10.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.25	18.25	9.00
1 month	17.38	17.50	8.75
3 months	16.50	16.75	8.75
Bank Holding Companies			
1 month	17.13	17.75	8.63
Dealer Placed:			
3 months	17.13	17.75	8.50
New AA Corporate Utility Bond	17.13	16.75	12.50
Tax Exempt			
6 month Project Notes	7.80	7.80	4.40
1 year AAA Bond	8.00	8.00	5.10
5 year AAA Bond	9.00	8.45	5.50
20 year AAA Bond	10.50	10.40	7.85

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Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

Aug. 7, 1981

Record rates were set in the Treasury refunding auctions this week, reflecting dealer apprehensions concerning the strength of investor interest, as well as the unsettled nature of the funds market. Depending on one's point of view, the auctions were either very successful or only moderately so. The stronger than expected investor interest—and the consequently slightly lower than expected yields--were a relief to securities dealers, who feared being burdened with heavy inventory positions in the new notes and bonds. The Treasury cannot have been similarly enthusiastic, however, in view of the record high rates placed on the offerings. Nevertheless, with the refunding out of the way, the market's tone should improve somewhat before the Labor Day doldrums set in.

As anticipated last week, the funds market was highly volatile after the weekend. The main reason appears to have been the unpredictability of the impact of the air traffic controllers' strike on Federal Reserve float. As noted here last week, the best guess was that delays in check transit via the Fed's chartered air couriers would cause float to increase substantially, oversupplying the banks with reserves. In fact, the almost optimal visual flying conditions throughout the country appear to have minimized the impact. That could change quickly, of course, if weather conditions worsen. But during the last week, float probably provided less reserves than expected by the Fed, accounting for much of the upward pressure on the funds rate. The Fed, for its part, appeared to be trying to catch up with the problem with repeated reserves injections, but nevertheless the rate moved up sharply, from about 17 1/2% at the Monday opening to over 20% at some points.

Open market operations in coming weeks are highly uncertain. Both a sudden increase in float and settlement of the Iranian transfer could necessitate reserves draining operations or else smaller additions. That is hardly a propitious background for a market rally, though on balance judgment suggests that the funds rate should move back down under 18% soon.

The Federal Open Market Committee meets next on August 18, against a background of recently sluggish economic activity. M-1B (adjusted for estimated shifts of NOW accounts) is well below the bottom of its target range, while M-2 growth appears rapid. Most of the strength in M-2, however, is attributable to rapid growth of money market mutual fund shares, which last week surpassed $140 billion. Our best guess is that at its meeting the FOMC will vote for another modest move to make reserves more available to the banking system. That in turn will put some downward pressure on interest rates.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

	8/7/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50%	20.50	11.00%
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	10.00
Federal Funds	18.75	17.38	9.13
Repurchase Agreements	18.50	16.25	8.88
U.S. Treasury Issues			
Bills			
3 months	16.29	15.50	8.70
6 months	16.96	16.13	9.13
1 year	16.66	16.00	9.30
Coupons			
2 years	16.00	15.75	9.65
4 years	15.65	15.38	9.98
7 years	15.05	14.88	10.50
10 years	14.84	14.63	10.75
Long Bond	14.10	13.88	10.65
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.25	17.70	9.15
3 months	18.20	17.70	9.30
6 months	18.05	17.70	9.50
1 year	17.20	16.85	10.00
Banker's Acceptances			
1 month	18.25	17.60	9.15
3 months	18.25	17.75	9.25
6 months	18.15	17.90	9.55
Eurodollar Deposits			
1 month	19.00	18.50	9.63
2 months	19.00	18.63	9.88
3 months	19.00	18.63	10.19
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.25	17.25	7.00
1 month	17.75	17.38	8.63
3 months	16.50	16.50	8.75
Bank Holding Companies			
1 month	17.75	17.13	8.63
Dealer Placed:			
3 months	18.00	17.13	8.63
New AA Corporate Utility Bond	17.00	17.13	12.50
Tax Exempt			
6 month Project Notes	7.85	7.80	4.35
1 year AAA Bond	8.40	8.00	5.00
5 year AAA Bond	9.00	9.00	5.40
20 year AAA Bond	10.25	10.50	7.95

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Financial Markets

Irving Trust

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Economic Research &
Planning Division

Friday
(Noon)

Aug. 14, 1981

Financial markets were extremely nervous this week, with participants awaiting major economic data releases late in the week, and government securities dealers eyeing the approaching Monday settlement date for the Treasury refunding issues. Adding to the disquiet was a slight degree of firmness in the Federal funds rate on Wednesday and Thursday, together with substantial writing of CDs by major banks whenever CD rates showed any inclination to decline.

Nevertheless, the funds rate is trending down gradually, and before long that will pull other short-term rates along for at least modest declines. The key reason is the recent effort by the Federal Reserve to reduce pressures on bank reserves positions, as revealed in the approximately $1 billion decline of net borrowed reserves since late June. In addition, the pattern of open market operations this week—including an outright purchase of Treasury bills on Wednesday and four-day repurchase agreements on Thursday—also suggests a strong interest by the Fed in easing pressures, particularly in view of the possibility that float may still increase quickly if major difficulties arise as a result of the air traffic controllers' strike. Finally, the lower levels of borrowing by banks so far this quarter suggest that a great many have yet to use the four "tickets" allowed the larger banks for borrowing at the basic 14% discount rate. As the quarter end approaches, attempts by banks to use their borrowing allotments fully should compound the downward pressure on the funds rate.

The Federal Open Market Committee meets on Tuesday next week against a background of continued evidence of slowing of inflation pressures, as well as sluggish economic activity. Growth of M-1B is also following a sluggish pattern, though M-2 is very strong. However, it should be recalled that, during the first half of this year, about 70% of the gap between M-1B and M-2 growth was accounted for by expansion of money market mutual fund shares, while their proportion of the growth of July's M-2 (to be reported tonight) should be even higher. Of course, the Fed is justifiably concerned about the (largely unknown) transactions component of money fund shares, since its expansion artificially depresses M-1B. Nevertheless, the Fed at this stage cannot be wholly aloof from the strains emerging in the financial system--graphically symbolized by the anemic growth of small time deposits and savings accounts, the main funds source for thrift institutions. That part of M-2, at least, is withering. While it would be rash to expect a panicky reaction by the Fed, before long it will respond, and another move toward ease could come as a result of next week's meeting.

As things stand now, net borrowed reserves have already declined so far that there is not much scope for further ease without a reduction of the discount rate. While that is not an immediate probability, it appears likely within a few weeks.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	8/14/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50%	20.50%	11.00%
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	10.00
Federal Funds	17.50	18.75	9.00
Repurchase Agreements	17.25	18.50	8.38
U.S. Treasury Issues			
Bills			
3 months	16.18	16.29	8.54
6 months	16.96	16.96	8.96
1 year	16.63	16.66	8.99
Coupons			
2 years	16.07	16.00	10.08
4 years	15.48	15.65	10.14
7 years	14.95	15.05	10.63
10 years	14.65	14.84	10.89
Long Bond	13.85	14.10	10.88
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.10	18.25	9.45
3 months	18.05	18.20	9.60
6 months	18.05	18.05	10.00
1 year	17.50	17.20	10.25
Banker's Acceptances			
1 month	17.85	18.25	9.30
3 months	17.90	18.25	9.60
6 months	17.95	18.15	10.00
Eurodollar Deposits			
1 month	18.38	19.00	9.50
2 months	18.50	19.00	10.00
3 months	18.63	19.00	10.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.63	18.25	8.88
1 month	17.63	17.75	9.13
3 months	16.50	16.50	9.00
Bank Holding Companies			
1 month	17.50	17.75	9.00
Dealer Placed:			
3 months	17.63	18.00	9.13
New AA Corporate Utility Bond	16.85	17.00	12.75
Tax Exempt			
6 month Project Notes	8.35	7.85	4.60
1 year AAA Bond	8.40	8.40	5.10
5 year AAA Bond	8.90	9.00	5.45
20 year AAA Bond	11.00	10.25	7.80

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Financial Markets

Irving Trust

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Economic Research &
Planning Division

Friday
(Noon)

Aug. 21, 1981

Financial markets were highly nervous this week, attempting to divine the outcome of Tuesday's Federal Open Market Committee meeting. The best bet is that the Fed will continue its approach of very gradually easing pressure on bank reserves positions as--and if--prospects for a late-year surge in money growth recede.

On Thursday, the Fed announced a new credit facility primarily for thrift institutions, involving loans at rates as low as the basic discount rate. In part, this initiative is probably a sensible political response to the extreme weakness of thrift deposit flows. But a potentially more important aspect of the program is to provide a channel for supplementing the resources of the Federal Savings and Loan Insurance Corporation, so that there can be no question in the mind of the public concerning the adequacy of the reserves of the insurance funds. (Recall that, in 1974, the Fed loaned Franklin National Bank over $1 billion in order to provide similar assistance to the FDIC.) Most likely, the amount of advances under the new program will not be very large, as neither the Fed nor the Federal Home Loan Banks desire that the Fed assume the role of primary extender of adjustment credit to the thrift industry. Of course, such credit extensions as do occur will be offset easily through the Fed's open market operations, so there will be no impact on interest rates.

In the last three weeks, rates in the municipal bond market have increased sharply to all-time record levels, while rates on comparable maturity Treasury securities have been about unchanged on balance during the period. For example, the Bond Buyer index of 20 general obligation bonds soared 105 basis points to 12.49%, while the higher grade 11-bond index increased 100 basis points to 12.08%. The revenue bond index was up 92 basis points to 13.04%. These increases are traceable in large part to the spreading recognition of the implications of the Reagan tax program for the municipal securities market. Though the so-called "all-savers" provision has been the focus of attention, it will probably cause relatively few individuals to take funds out of the municipal securities market. More important is the reduction of individual income tax rates, cumulating to 23% in 1984 and subsequent years. Moreover, beginning in 1985 tax rates are indexed for changes in the Consumer Price Index, so that "bracket creep" will not cause individuals to support the municipals market as in the past. In addition, a little-noticed part of the legislation makes leasing significantly more attractive, enhancing the ability of banks to shelter income from tax. Since banks and individuals are the largest investors in the municipals market, the result is a double blow to the demand for municipal securities. As municipal financing pressures mount, this problem will likely prompt calls for Federal subsidization of certain municipal expenditures—unlikely in the present political climate. The Treasury would find more palatable a revived Taxable Bond Option, providing direct Treasury interest subsidies to issuers of taxable municipals. That would broaden the market--while transforming radically its present organization.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	8/21/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50%	20.50%	11.25%
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	10.00
Federal Funds	17.50	17.50	10.13
Repurchase Agreements	17.00	17.25	9.50
U.S. Treasury Issues			
Bills			
3 months	16.20	16.18	10.02
6 months	16.90	16.96	10.70
1 year	16.60	16.63	11.02
Coupons			
2 years	16.20	16.07	11.10
4 years	15.72	15.48	11.25
7 years	15.18	14.95	11.30
10 years	14.86	14.65	11.26
Long Bond	14.09	13.85	11.21
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.00	18.10	10.30
3 months	17.95	18.05	10.75
6 months	18.10	18.05	11.00
1 year	17.35	17.50	11.50
Banker's Acceptances			
1 month	17.85	17.85	10.20
3 months	17.95	17.90	10.50
6 months	18.00	17.95	10.90
Eurodollar Deposits			
1 month	18.38	18.38	10.38
2 months	18.63	18.50	10.75
3 months	18.63	18.63	11.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.00	17.63	9.64
1 month	17.50	17.63	9.95
3 months	17.00	16.50	9.99
Bank Holding Companies			
1 month	17.25	17.50	9.45
Dealer Placed:			
3 months	17.25	17.63	10.25
New AA Corporate Utility Bond	17.00	16.85	12.75
Tax Exempt			
6 month Project Notes	8.50	8.35	6.40
1 year AAA Bond	9.30	8.40	5.90
5 year AAA Bond	10.00	8.90	6.20
20 year AAA Bond	12.00	11.00	8.20

This information represents prevailing market yields.
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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Aug. 28, 1981

Sentiment in financial markets swung sharply this week--from despair right after the weekend to an emerging, tentative hope as the Federal funds rate traded down, on balance, during the week. The key source of uncertainty among market participants was whether the drop in the funds rate reflected an overt move by the Federal Reserve to make reserves more available to the banking system.

At this point the Fed does not appear to have been behind the rate drop, except very indirectly. The net borrowed reserves position of banks has moved up sharply in recent weeks, reflecting the impact of large increases in M-1B.

Statement Week Ending	Net Borrowed Reserves ($ bil.)	Cumulative Change of M-1B, Lagged Two Weeks ($ bil.)
8/5/81	0.7	0.0
8/12/81	1.0	+5.3
8/19/81	1.2	+6.1

This pattern suggests that, as one would expect under the Fed's reserves-oriented operating procedures, the bulge in the money stock is causing net borrowed reserves to increase as well. That should put upward pressure on the funds rate.

So what accounts for this week's softness? While a likely error by the Fed in projections of reserves availability probably played a role, it appears that the fundamental factor is the greater inclination of banks to borrow from the Fed's discount window. The reason is that large banks are allowed to borrow at the 14% basic discount rate in four weeks during a calendar quarter without having to pay the 4% surcharge. Since borrowings have been relatively modest thus far during this quarter, many banks presumably have all or a large part of their four "tickets" remaining to be used. As they attempt to use them before they expire at the end of September, the result is downward pressure on the funds rate. Something like this seems to have happened also during the first quarter of this year. Borrowings averaged $1.3 billion during the first half of the quarter (compared to $1.6 billion this quarter), and the funds rate declined sharply toward the end of the quarter. We have argued before that this system--which bears a striking resemblance to the use of time-outs late in a football game--could be improved upon. But the important point now for market participants is that, unless confirmed by increased reserves availability, funds rate declines produced in this fashion can easily be reversed--as indeed occurred after the end of the first quarter.

In view of the strength of the monetary aggregates relative to the Fed's presumed short-run targets, the outlook at this stage must be guarded.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

	8/28/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50	20.50%	11.50
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	10.00
Federal Funds	16.25	17.50	11.00
Repurchase Agreements	15.00	17.00	10.75
U.S. Treasury Issues			
Bills			
3 months	16.15	16.20	10.36
6 months	16.94	16.90	10.74
1 year	16.80	16.60	10.50
Coupons			
2 years	16.54	16.20	11.65
4 years	16.10	15.72	11.80
7 years	15.53	15.18	11.90
10 years	15.23	14.86	11.90
Long Bond	14.44	14.09	11.50
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.45	18.00	11.05
3 months	17.70	17.95	11.60
6 months	18.00	18.10	12.00
1 year	17.50	17.35	12.20
Banker's Acceptances			
1 month	17.70	17.85	11.05
3 months	17.75	17.95	11.45
6 months	18.10	18.00	11.60
Eurodollar Deposits			
1 month	18.25	18.38	11.25
2 months	18.50	18.63	11.50
3 months	18.75	18.63	12.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	17.00	10.75
1 month	17.25	17.50	10.63
3 months	17.00	17.00	10.50
Bank Holding Companies			
1 month	17.25	17.25	10.25
Dealer Placed:			
3 months	17.13	17.25	10.50
New AA Corporate Utility Bond	17.30	17.00	13.13
Tax Exempt			
6 month Project Notes	9.00	8.50	6.60
1 year AAA Bond	9.00	9.30	5.75
5 year AAA Bond	9.60	10.00	6.30
20 year AAA Bond	12.10	12.00	8.20

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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Sept. 4, 1981

This week was marked by a palpable disintegration of the bond markets, with record yields posted almost everywhere. The Treasury's 30-year bond reached its all-time low price on Monday, an AAA-rated Bell System bond reached the market on Tuesday yielding over 17%, and the Bond Buyer index of 20 municipal bonds rose (yet again) to a new record of 13.10%. Contributing to the higher yields were a variety of factors: the Labor Day doldrums (which made markets quite thin), the temporarily higher Federal funds rate, as well as several economic reports which on balance pointed to continuing momentum in the economy.

But the dominating factor was the spreading realization that the Administration's projections for the Treasury deficit were overly rosy. Though that prospect has been in evidence for some time, it seemed as though scarcely a day passed this week without some journalist announcing the "autumn chill" in the Administration. In this setting it is worthwhile considering where the problem really lies. In essence, the markets perceive that fiscal policy is stimulative, while monetary policy is highly restrictive--a combination fraught with potential for continuing high interest rates, in the view of most market participants.

Why the large deficits? Near term, the tax cuts and step-up in military expenditures are only part of the problem--more important are the huge interest costs of the Treasury, together with the sluggish economy's adverse impact on its revenue/expenditure balance. Of course, these problems were not intended to occur: the supply-side vision of a few months back held that the expectations of individuals and firms would be transformed swiftly to spur economic activity, while allowing interest rates to decline. A reduction in the rate of growth of the money stock was part of the background contributing to the revision of expectations, but otherwise did not have a major impact on the projections. Actually, if a wholesale shift in inflationary expectations actually had occurred, many--if not all--of the objectives of the supply-side vision could have been attained. The main problem lies in the process of formation of expectations--the financial markets want to see lower inflation and interest rates endure for a while before placing bets that the shift is permanent. Otherwise expressed: expectations depend on performance. That is especially true in the long-term markets, where investors have repeatedly sustained major portfolio losses over the last several years as yields reached new peaks.

Unfortunately, the Treasury's credibility suffered from this episode. In contrast, that of the Federal Reserve has been buttressed. Though Chairman Volcker would probably be too discreet to tell the Administration "I told you so," in fact the Fed in past months correctly anticipated for the most part the problems likely to arise as a result of the ambitious tax-cut program.

Near term, we expect continued softness of the funds rate to prompt some declines of other short-term rates. However, further rate drops should be gradual.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

	9/4/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50	20.50	11.50%
Effective since	7/8/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	10.00
Federal Funds	16.75	16.25	10.25
Repurchase Agreements	16.75	15.00	9.50
U.S. Treasury Issues			
Bills			
3 months	16.43	16.15	9.68
6 months	17.37	16.94	9.90
1 year	17.22	16.80	9.86
Coupons			
2 years	16.85	16.54	10.78
4 years	16.36	16.10	11.02
7 years	15.63	15.53	11.16
10 years	15.45	15.23	11.17
Long Bond	14.79	14.44	11.00
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.40	17.45	10.30
3 months	17.90	17.70	10.75
6 months	18.05	18.00	11.25
1 year	17.75	17.50	11.50
Banker's Acceptances			
1 month	17.45	17.70	10.20
3 months	17.85	17.75	10.55
6 months	18.10	18.10	10.75
Eurodollar Deposits			
1 month	18.13	18.25	10.75
2 months	18.44	18.50	11.25
3 months	18.69	18.75	11.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	16.75	15.00	9.00
1 month	17.13	17.25	9.88
3 months	17.00	17.00	9.88
Bank Holding Companies			
1 month	17.13	17.25	9.63
Dealer Placed:			
3 months	17.00	17.13	10.13
New AA Corporate Utility Bond	17.63	17.30	12.88
Tax Exempt			
6 month Project Notes	9.75	9.00	5.80
1 year AAA Bond	9.50	9.00	5.60
5 year AAA Bond	10.20	9.60	6.00
20 year AAA Bond	13.10	12.10	8.20

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Financial Markets

Irving Trust

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**Economic Research &
Planning Division**

Friday
(Noon)

Sept. 11, 1981

Interest rates moved slightly lower on balance this week, as participants recovered some of their poise following the previous week's devastation. The key to the modest improvement was the funds rate, which generally traded under 17%. The average effective rate on Federal funds has now declined in each of the last four weeks, to 16.50% in the statement week ended Wednesday.

The Fed did not conduct an expected reserves-draining operation today, prompting some suspicion that an easing of policy might be under way. However, the softening pattern in past weeks largely reflected the greater inclination of banks to borrow reserves from the discount window as the end of the quarter approaches. The reason, of course, is that the four "tickets" allotted to large banks to borrow at the 14% basic discount rate expire at the end of the calendar quarter, giving them an incentive to bid less aggressively for funds so as to use their borrowing opportunities. Recall that only four weeks ago net borrowed reserves (excluding the Fed's special extended credit) was about $1 billion, just as in the statement week ended September 3--but the average funds rate was 1.4% higher.

As we have noted before, this pattern bears some resemblance to the fund rate decline in the first quarter of this year. Then, the Fed clearly perceived the risk of a near-term acceleration in money growth--and probably does now as well. In particular, a variety of technical factors could strengthen money demand in October and subsequent months, possibly pushing the growth of the aggregates beyond the Fed's targets. That prospect--plus the resilience of the economy and credit demands--undoubtedly lies behind the Fed's cautious approach.

The much publicized political storm that erupted this week as Congress reconvened must be seen against that background. The Fed and all market participants are fully aware that its hard-won credibility has been achieved by generally sound economic analysis accompanied by impressive determination in hitting its targets. That could all be lost--with highly adverse consequences for financial markets--if the Fed were to alter its course in response to political pressures.

At this stage, such an outcome appears remote. Moreover, contrary to the suggestions of some analysts, there does not seem to be any immediate prospect of either the 14% basic discount rate or the 4% surcharge being lowered. The surcharge, for all its faults, is now a permanent part of the Fed's apparatus for maintaining discipline at the discount window. While the surcharge rate could be lowered, it probably will not be, since the discipline problem is likely to increase between now and the end of the quarter. If money growth in the next several weeks is sluggish, the basic rate could be lowered as the net borrowed reserves position declined to "near-frictional" levels. Such has not happened yet.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	9/11/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.50	20.50	12.25%
Effective since	7/8/81	7/8/81	
Discount Rate at Federal Reserve Bank	14.00	14.00	10.00
Federal Funds	16.50	16.75	10.75
Repurchase Agreements	16.00	16.75	10.00
U.S. Treasury Issues			
Bills			
3 months	15.78	16.43	10.60
6 months	16.78	17.37	11.10
1 year	16.87	17.22	11.30
Coupons			
2 years	16.70	16.85	11.42
4 years	16.30	16.36	11.40
7 years	15.74	15.63	11.45
10 years	15.43	15.45	11.35
Long Bond	14.69	14.79	11.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.15	17.40	10.75
3 months	17.45	17.90	11.15
6 months	17.75	18.05	11.50
1 year	17.80	17.75	11.75
Banker's Acceptances			
1 month	17.10	17.45	10.70
3 months	17.50	17.85	11.20
6 months	17.75	18.10	11.60
Eurodollar Deposits			
1 month	17.63	18.13	11.00
2 months	17.75	18.44	11.44
3 months	18.00	18.69	11.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	16.25	16.75	10.50
1 month	16.63	17.13	10.63
3 months	16.63	17.00	10.50
Bank Holding Companies			
1 month	16.50	17.13	10.50
Dealer Placed:			
3 months	16.85	17.00	10.75
New AA Corporate Utility Bond	17.75	17.63	13.00
Tax Exempt			
6 month Project Notes	9.90	9.75	5.90
1 year AAA Bond	9.30	9.50	6.10
5 year AAA Bond	9.80	10.20	6.30
20 year AAA Bond	13.10	13.10	8.20

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Financial Markets

Irving Trust

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Economic Research &
Planning Division

Friday
(Noon)

Sept. 18, 1981

Fixed-income securities markets took encouragement this week from the continuing downward trend in the Federal funds rate, together with reports of August declines in industrial production and housing starts. Nevertheless, many market participants remain far from convinced that the lower funds rate is to be a permanent feature of the financial landscape. It will take still further declines--especially during October--to convince many skeptics that the rally of the last few weeks can be maintained.

Of course, if a pattern of pronounced economic weakness sets in, that surely can reduce credit demands and the demand for money, allowing interest rates to work lower. Though recent economic data definitely reflect a sluggish economy, the possibility of renewed expansion in the fourth quarter cannot be ruled out as yet, and many particpants clearly are taking a wait-and-see approach. Short-term business credit has expanded very rapidly during recent weeks, partially reflecting the disorder of the bond market. Strong business credit demands could be due either to a desire to expand operations or else to a need to finance undesired inventory accumulation. It is too early to say which of these influences has been more important. As far as money demand is concerned, it is clear for all to see that M-1B has been quite sluggish. Currently, the aggregate is more than $4 billion below our estimate of the Fed's short-run target. Nevertheless, a variety of essentially technical factors could lift M-1B around the beginning of October--whether they actually do so, of course, remains to be seen.

Chairman Volcker testified to the Senate Budget Committee this week, and several points in the testimony are worthy of note. He characterized money growth as being "reasonably on track" with respect to achieving the Fed's reduced money supply objectives, suggesting a continuing cautious approach. Interestingly, Volcker described the recent slowing of various inflation measures as "significant signs of progress"; in earlier statements this development had been viewed as tentative and possibly ephemeral. Finally, as he has done on many occasions in the past, the Chairman noted that, "For all the signs of progress today, we need to recognize that, in some respects, the toughest part of the job lies ahead." There can be no doubt as to the degree of commitment the Fed feels in pursuing its anti-inflationary course.

Near term, the current trading levels of the Federal funds rate appear quite sustainable--and there might even be some further drops. However, with the banking system needing a fairly substantial injection of reserves in the next several weeks, it is conceivable that a reluctant pattern of provision of reserves by the Fed could retard any tendency toward softness.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	9/18/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.50%	12.50%
Effective since	9/15/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	10.00
Federal Funds	15.75	16.50	10.75
Repurchase Agreements	14.13	16.00	10.00
U.S. Treasury Issues			
Bills			
3 months	14.96	15.78	10.01
6 months	15.61	16.78	10.35
1 year	15.90	16.87	10.40
Coupons			
2 years	15.95	16.70	11.65
4 years	15.70	16.30	11.75
7 years	15.27	15.74	11.76
10 years	14.87	15.43	11.35
Long Bond	14.16	14.69	11.30
Negotiable Certificates of Deposit-Secondary Market			
1 month	16.15	17.15	11.00
3 months	16.40	17.45	11.10
6 months	16.75	17.75	11.60
1 year	16.65	17.80	11.70
Banker's Acceptances			
1 month	15.95	17.10	10.75
3 months	16.45	17.50	11.10
6 months	16.75	17.75	11.40
Eurodollar Deposits			
1 month	16.88	17.63	11.25
2 months	17.00	17.75	11.63
3 months	17.38	18.00	11.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.50	16.25	6.00
1 month	15.38	16.63	10.50
3 months	15.50	16.63	10.63
Bank Holding Companies			
1 month	15.50	16.50	10.63
Dealer Placed:			
3 months	15.50	16.85	10.88
New AA Corporate Utility Bond	17.15	17.75	13.13
Tax Exempt			
6 month Project Notes	9.15	9.90	5.50
1 year AAA Bond	9.00	9.30	5.90
5 year AAA Bond	9.50	9.80	6.10
20 year AAA Bond	12.65	13.10	8.00

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Financial Markets

Irving Trust

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One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Sept. 25, 1981

The downward drift of short-term interest rates began to show signs of being arrested this week, amid indications that the Federal Reserve wants to avoid an excessive rate drop that might be reversed later on.

The most important evidence of that determination is the Fed's decision on Monday to change--effective October 1--the rules for application of the discount rate surcharge to large banks that are frequent borrowers from the Fed's discount window. Under the previous rules, large banks--i.e., those with deposits of $500 million or more--were subject to the surcharge if they borrowed in more than four statement weeks during a calendar quarter or in two successive weeks. The new rules replace the calendar quarter with a 13-week "moving quarter." Thus, if a bank borrows during more than four statement weeks in the period including the current statement week as well as the 12 previous statement weeks, it is subject to the surcharge. The surcharge is still applied in the second of the two successive weeks in which a bank borrows.

The significance of this change is that the four so-called "tickets" allowing banks to borrow at the basic discount rate do not "expire" at the end of the calendar quarter as under the old rules. For example, a bank that had not borrowed at all during the first six weeks of this quarter would have to borrow every other week during the remaining seven weeks in order not to lose a ticket at the quarter's end. As we have noted here several times before, the attempts of banks to utilize fully their borrowing privileges caused them to become significantly less aggressive in bidding for Federal funds--that is a major explanation for the roughly 3% decline in the funds rate since about the middle of the third quarter. The rule change should put a brake on the recent plunge of the funds rate by making banks more cautious in covering their reserves positions.

Interestingly, what attracted the most attention from financial market participants was the reduction of the surcharge rate to 3% from 4% announced simultaneously with the rule change. The meagerness of that rate cut disappointed some participants, who had hoped for a larger reduction. In fact, since virtually no banks were borrowing at the surcharge rate anyway, the rate cut made no difference operationally--though it might be said to hold out a prospect of slightly reduced rate pressures in any future increase of pressure on reserves positions. It appears that the cut served two main purposes. First, it was a gesture--largely symbolic--to Congress, which has been highly critical lately of high interest rates. The second, and more important, purpose was probably to offset some of the upward push on the funds rate that might be expected to follow from the new rule.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	9/25/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate Irving Trust Company	19.50%	20.00%	13.00
Effective Date	9/22/81		
Discount Rate Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	14.00	15.75	11.88
Repurchase Agreements	13.50	14.13	11.50
U.S. Treasury Securities			
Bills			
3 months	15.10	14.96	11.25
6 months	15.74	15.61	12.25
1 year	16.08	15.90	12.50
Coupons			
2 years	16.20	15.95	12.47
4 years	16.00	15.70	12.30
7 years	15.70	15.27	12.10
10 years	15.45	14.87	12.02
Long Bond	14.87	14.16	11.85
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.00	16.15	11.80
3 months	15.90	16.40	12.10
6 months	16.70	16.75	12.65
1 year	16.50	16.65	12.75
Bankers Acceptances			
1 month	15.00	15.95	12.00
3 months	16.00	16.45	12.30
6 months	16.75	16.75	12.70
Eurodollar Deposits			
1 month	16.13	16.88	12.13
2 months	16.50	17.00	12.44
3 months	17.13	17.38	13.06
Commercial Paper—Prime Names			
Direct Placed			
Finance Companies			
1 week	12.00	14.50	11.75
1 month	14.25	15.38	11.50
3 months	14.25	15.50	10.75
Bank Holding Companies			
1 month	14.75	15.50	11.25
Dealer Placed			
3 months	15.75	15.50	11.88
New AA Corporate Utility Bond	17.75	17.15	13.75
Tax Exempt			
6 month Notes	8.90	9.15	5.45
1 year AAA Bond	8.75	9.00	6.00
5 year AAA Bond	9.60	9.50	6.30
20 year AAA Bond	11.50	12.65	8.60

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1981

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Oct. 2, 1981

October 1 seemed to be the start-up date for just about everything--the new Federal fiscal year, the introduction of the "All Savers" certificates, the initial phase of the Administration's tax reductions, the beginning of same-day settlement in the Clearing House Interbank Payments System (CHIPS), and the effective date for the Fed's new rules governing the surcharge on the discount rate. For much of the week, the funds market was under pressure; and by the end of the week, doubts were growing among market participants as to how much of the pressure was due to technical aberrations. Simultaneously, indications of growing economic weakness continued to accumulate--the most graphic being the 0.3% jump of the unemployment rate to 7.5% in September. The result was that short-term rates moved up over the week, while long-term rates declined slightly on balance.

Contributing to the upward pressure on the funds rate was the "window dressing" activity of some banks on Wednesday, as well as the start of same-day settlement in CHIPS on Thursday. A number of banks apparently experienced mild operational difficulties related to funds transfer, and many were being extra cautious in covering their reserves positions. That caution contributed to the tightness and should persist for a few days until the new procedure becomes routine. However, the new CHIPS procedure was likely not the only factor behind the firmness--the Fed's new rules governing the discount rate surcharge should also have made banks bid somewhat more aggressively in the funds market.

The Federal Open Market Committee meets next Tuesday against a background of growing signs of economic weakness. The monetary aggregates continue their schizophrenic behavior, with M-1B well below its target and M-2 slightly above its target. The divergence reflects a complex pattern of shifts of funds into money market mutual fund shares and deposit instruments paying market rates. Though these problems must be extremely frustrating to the Fed, there is as yet no indication that any attempt will be made to move M-1B quickly back to its target.

Indeed, considering that the Fed moved to brake the plummeting funds rate by changing the surcharge rules, one can argue that nothing has been done in recent weeks to ease Fed policy materially. Certainly the reserves data indicate no such move. The Fed may well want to wait a while and assess the near-term behavior of the aggregates a bit more, since expectations are widespread that M-1B will grow strongly in early October, reflecting the timing of Social Security payments on a Friday as well as the end of some banks' Eurodollar arbitrage activities.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	10/2/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.50	19.50%	13.50
Effective since	9/22/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	17.25	14.00	13.50
Repurchase Agreements	16.25	13.50	12.50
U.S. Treasury Issues			
Bills			
3 months	15.26	15.10	11.80
6 months	16.10	15.74	12.10
1 year	16.45	16.08	12.15
Coupons			
2 years	16.40	16.20	11.72
4 years	16.05	16.00	11.65
7 years	15.85	15.70	11.58
10 years	15.55	15.45	11.52
Long Bond	14.95	14.87	11.45
Negotiable Certificates of Deposit-Secondary Market			
1 month	16.65	15.00	12.80
3 months	17.00	15.90	12.90
6 months	17.10	16.70	13.00
1 year	16.75	16.50	12.80
Banker's Acceptances			
1 month	16.50	15.00	12.75
3 months	16.55	16.00	12.90
6 months	17.00	16.75	12.95
Eurodollar Deposits			
1 month	16.88	16.13	13.25
2 months	17.19	16.50	13.44
3 months	17.75	17.13	13.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	16.25	12.00	11.00
1 month	15.50	14.25	12.25
3 months	14.75	14.25	11.75
Bank Holding Companies			
1 month	15.13	14.75	12.75
Dealer Placed:			
3 months	15.25	15.75	12.63
New AA Corporate Utility Bond	18.25	17.75	13.50
Tax Exempt			
6 month Project Notes	9.15	8.90	5.40
1 year AAA Bond	9.00	8.75	6.00
5 year AAA Bond	9.55	9.60	6.20
20 year AAA Bond	11.75	11.50	8.60

This information represents prevailing market yields.
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81

Financial Markets

Irving Trust

Irving Trust Company
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New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Oct. 9, 1981

Money markets rapidly assumed a more optimistic attitude this week, partly due to a growing perception of the magnitude of the economic slowdown, but also aided by the swift easing of pressure on the Federal funds market after the weekend. Prior to the weekend, funds traded in a 16%-17% range, reflecting anxieties about the start-up of same-day settlement of CHIPS transactions. Though the Fed almost certainly perceived a need to drain reserves, it apparently deferred the job until after the weekend so as not to compound the market's tension. The result was that the funds rate started softening on Monday, and repeated reserve draining by the Fed could not prevent its plunge to the 12% area by Wednesday. Though the drop was generally perceived to be merely a technical aberration, it nevertheless aided the rally in the short-term and long-term markets.

Adding interest to the week was yet another exchange between the Treasury and the Fed. Secretary Regan stated fairly explicitly the Treasury's desire to see interest rates decline sooner rather than later. Chairman Volcker reaffirmed earlier statements cautioning against precipitate actions that might undermine public confidence in the Fed's resolve to persist in a restrictive policy. The incident was reminiscent of a similar exchange in March of this year involving Under Secretary Sprinkel. Then, the Fed properly shrugged off the Treasury's advice--and it is likely to do so this time as well.

Though it is impossible, at this stage, to discern whether the FOMC eased its policy stance at the Tuesday meeting, there are several tentative signs that the Fed may have decided to pause and assess the impact of the rate declines already achieved before proceeding to further stimulus. Thus the immediate outlook is for the funds rate to hold at its current level, possibly moving to above 15%. Later on, further declines, accompanied by a reduction in the basic discount rate, seem likely.

By sheer coincidence, the Tuesday FOMC meeting was the second anniversary of the "Saturday Night Special," which moved the Fed's operating target from the funds rate to the current system of reserves targets. Undoubtedly, the anniversary provided an occasion for reflection on how difficult reserves targeting can be in the presence of uncertainty concerning the proper measure of the transactions-oriented money stock. The principal problem, of course, is the absence of money market mutual fund shares--which are generally checkable--from the M-1B aggregate. Since the money funds have grown rapidly this year, inclusion of only a small portion of them in M-1B would raise substantially the growth of that aggregate. As the Fed looks ahead to next year, it may well ponder whether the tentative 2 1/2%-5 1/2% growth objective for M-1B--which seems so restrictive in terms of historical velocity growth--is in need of downward adjustment.

William C. Melton

Irving Trust

Market Yields

	10/9/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	19.00%	19.50%	13.50%
Effective since	10/5/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	14.75	17.25	12.88
Repurchase Agreements	14.25	16.25	12.25
U.S. Treasury Issues			
Bills			
3 months	14.14	15.26	11.55
6 months	14.96	16.10	11.88
1 year	15.24	16.45	11.95
Coupons			
2 years	15.48	16.40	11.60
4 years	15.20	16.05	11.55
7 years	15.06	15.85	11.47
10 years	14.73	15.55	11.40
Long Bond	14.26	14.95	11.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.75	16.65	12.40
3 months	15.35	17.00	12.50
6 months	15.70	17.10	12.50
1 year	15.50	16.75	12.50
Banker's Acceptances			
1 month	14.85	16.50	12.50
3 months	15.36	16.55	12.50
6 months	15.79	17.00	12.55
Eurodollar Deposits			
1 month	15.33	16.88	12.88
2 months	15.81	17.19	12.88
3 months	16.25	17.75	12.94
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.38	16.25	12.00
1 month	14.63	15.50	12.00
3 months	14.50	14.75	11.25
Bank Holding Companies			
1 month	14.50	15.13	12.50
Dealer Placed:			
3 months	14.50	15.25	12.25
New AA Corporate Utility Bond	17.50	18.25	13.25
Tax Exempt			
6 month Project Notes	8.85	9.15	5.20
1 year AAA Bond	8.90	9.00	6.00
5 year AAA Bond	9.25	9.55	6.30
20 year AAA Bond	11.50	11.75	8.20

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10/81

Financial Markets

Irving Trust

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One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Oct. 16, 1981

On balance, rates showed only very small changes this week in light trading that reflected the pervasive nervousness in the markets. That attitude was influenced by the firmness of the funds rate early in the week, together with widespread expectations of a large increase to be reported in the money stock data for the first week of October, to be released tonight. In anticipation of that data, most market participants appeared to be merely marking time.

The growth of short-term business credit in recent months has been very strong. In part that strength is due to the inability of many potential issuers of long-term debt to market issues on acceptable terms--a state of affairs that accounts for the extraordinary $17-18 billion of bond offerings currently congesting the corporate bond calendar. In addition, the recent spate of mergers also lifted business loans. More fundamentally, sluggish economic activity--which affects business cash flow adversely--probably also accounts for a share of the increase in the short-term financing requirements of business firms.

In view of the substantial spread of the prime rate over market interest rates during the last several months, it is hardly surprising that the strongest growth in short-term credit has been concentrated in nonprime-lending channels. As the accompanying data show, through September 30 (the most recent date for which data are available), both nonfinancial commercial paper and loans to U.S. firms by foreign branches of U.S. banks (the rates on which typically are indexed to LIBOR rates) have expanded at very strong rates. Nevertheless, the expansion of domestic commercial and industrial lending--while slower than that of commercial paper--is not exactly sluggish. That, of course, is part of the explanation for the relatively slow decline in the prime rate in recent weeks.

Annual Rates of Growth
(Data are 4-week moving averages)

	4-Week Growth Rate	13-Week Growth Rate
Commercial and Industrial Loans (Excluding Acceptances) at All Weekly Reporting Banks	12.8%	17.7%
Loans to U.S. Addressees Booked at Foreign Branches of Weekly Reporting Banks	112.0	128.2
Commercial Paper Issued by Nonfinancial Firms	84.3	54.1

William C. Melton

Irving Trust

Market Yields

	10/16/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	18.00%	19.00%	13.50%
Effective since	10/13/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	15.00	14.75	12.63
Repurchase Agreements	14.50	14.25	12.00
U.S. Treasury Issues			
Bills			
3 months	14.12	14.14	11.55
6 months	14.94	14.96	12.13
1 year	15.16	15.24	12.10
Coupons			
2 years	15.34	15.48	11.86
4 years	15.18	15.20	11.69
7 years	15.17	15.06	11.55
10 years	15.09	14.73	11.57
Long Bond	14.47	14.26	11.38
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.00	14.75	12.60
3 months	15.20	15.35	12.70
6 months	15.60	15.70	12.70
1 year	15.75	15.50	12.70
Banker's Acceptances			
1 month	14.85	14.85	12.60
3 months	15.20	15.36	12.40
6 months	15.65	15.79	12.00
Eurodollar Deposits			
1 month	15.50	15.33	13.13
2 months	15.75	15.81	13.31
3 months	16.06	16.25	13.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	14.63	14.38	8.00
1 month	14.63	14.63	12.25
3 months	13.75	14.50	11.50
Bank Holding Companies			
1 month	14.00	14.50	12.25
Dealer Placed:			
3 months	14.88	14.50	11.90
New AA Corporate Utility Bond	17.40	17.50	13.50
Tax Exempt			
6 month Project Notes	8.75	8.85	5.25
1 year AAA Bond	8.60	8.90	5.90
5 year AAA Bond	9.00	9.25	6.20
20 year AAA Bond	11.40	11.50	8.15

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Financial Markets

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**Economic Research &
Planning Division**

Friday
(Noon)

Oct. 23, 1981

Anxieties of many market participants increased a notch this week, as dealers began to ponder next week's Treasury refunding announcement, against a background of economic data somewhat less encouraging than many had expected. On Wednesday, the price deflator for gross national product was reported to have increased in the third quarter at a 9.4% annual rate, a sharp--though probably temporary--acceleration from the 6.4% rate noted for the second quarter. Adding to the market's anomie was the distinctly higher trading range of the Federal funds rate after the weekend. That also was probably due, in part, to problems with the Fed's reserves projections, but in any event it left little doubt that reserve provision continues in the holding pattern of the last several weeks.

Market participants were also somewhat concerned with the $5.6 billion increase in M-1B reported last Friday. Although a number of special factors contributed to expectations of a sizable increase, in retrospect it conforms very well to the pattern of increases observed for weeks in which Social Security payments are made on Friday.

The average size of such changes has grown larger as monthly Social Security payments have risen. In addition to the gradual increases caused by the expanding recipient population, the payments ratchet upward each July, when they are adjusted for increases in the Consumer Price Index. During the July 1976-June 1977 period, the average monthly Social Security payment was $8.4 billion, while the average change in M-1B in statement weeks with a Friday payment was $0.3 billion. For the July 1980-June 1981 period, the average monthly payment was $13.8 billion, and the average change in M-1B in weeks with a Friday payment was $3.8 billion (excluding the first week in January, which was affected by the introduction of NOW accounts)--increases from the earlier levels of $5.4 billion and $3.5 billion, respectively. The average change for July 1981 to June 1982 probably will be even larger. Social Security payments were increased 11.2% in July, and the two Friday payment weeks so far have registered increases of $7.2 billion and $5.6 billion. Interestingly enough, changes of M-1B in the statement week following a Friday payment week have been getting larger. During the July 1980-June 1981 period, M-1B on average declined $0.8 billion in the following week; five years earlier, such weeks averaged a $0.8 billion increase.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on page 7320 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	10/23/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	18.00%	18.00%	14.00%
Effective since	10/13/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	15.13	15.00	13.25
Repurchase Agreements	14.88	14.50	12.50
U.S. Treasury Issues			
Bills			
3 months	13.87	14.12	12.35
6 months	14.89	14.94	12.70
1 year	15.23	15.16	12.74
Coupons			
2 years	15.42	15.34	12.36
4 years	15.46	15.18	12.25
7 years	15.43	15.17	12.04
10 years	15.31	15.09	11.75
Long Bond	14.85	14.47	11.68
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.10	15.00	13.05
3 months	15.35	15.20	13.20
6 months	15.60	15.60	13.25
1 year	15.50	15.75	12.85
Banker's Acceptances			
1 month	15.10	14.85	12.90
3 months	15.36	15.20	13.15
6 months	15.65	15.65	13.44
Eurodollar Deposits			
1 month	15.63	15.50	13.38
2 months	15.94	15.75	13.81
3 months	16.25	16.06	13.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	14.63	10.00
1 month	14.88	14.63	12.50
3 months	14.50	13.75	12.00
Bank Holding Companies			
1 month	14.63	14.00	12.50
Dealer Placed:			
3 months	14.75	14.88	12.25
New AA Corporate Utility Bond	18.15	17.40	13.63
Tax Exempt			
6 month Project Notes	8.70	8.75	5.90
1 year AAA Bond	8.75	8.60	6.00
5 year AAA Bond	9.70	9.00	6.50
20 year AAA Bond	12.70	11.40	8.00

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